

A Brother and a Sister Lost

A personal family tragedy occurred at this time—the death of Daniel MacMillan, John Sr.'s loyal brother. He had taken ill in mid-February and died on March 25, 1939, at age 66. John Jr. wrote his father, who was on vacation in California, that "Uncle Dan's death . . . was a very great shock to all of us, and especially to me. . . . I had planned to see him yesterday." Daniel MacMillan had been a significant force in the Company since before the turn of the century and was probably the most important single influence on his older brother, John Sr., in the earlier years before John Jr. joined the Company. Daniel also had exerted a special impact on John Jr. For both John Sr. and John Jr., it was his unique ability to be a trusted listener and advisor. His loss was sorely felt by all of the Cargill group. John Sr., in ill health himself, was not able to make the trip from California for the funeral.

This was the second death of an immediate family member within a year for John and Edna MacMillan. Emma Hanchette, Edna's sister, had died in June 1938 at age 64.

Holding in Place

By May 31, 1939, the balance sheet looked much better than that of the previous year. There was a modest profit of \$218,000, and working capital stayed almost constant, after preferred stock dividends and some small additions to reserves. However, no common stock dividend was voted. The reasons for this lay in the heightened pessimism felt by John MacMillan, Sr.

The Corn Case appeared to have daunted John Sr. far more than John Jr. Although consistently backing up his son, John Sr. more and more preached prudence with both the CBOT and the government. He seemed to have a lingering unease about John Jr.'s continuing aggressive posture. As the situation in the Corn Case turned against Cargill after the first of the year 1939, John Sr. wrote John Jr.: "It is awfully hard for me to understand your point of view exactly in connection with these orders of the C.E.A. . . . I did not intend to take any chances."

John Sr. had been left in charge of the office during the absence of John Jr. for the Corn Case, and he reiterated in this letter a view he increasingly espoused: "There will be nothing done here in the organization in any way excepting to cut out unnecessary help—help that we ordinarily would carry along but under these circumstances [i.e., the Corn Case] that we can curtail. I think you will agree that that is advisable because it gives us a chance to cut out the dead wood in the organization." He wrote Cargill MacMillan in the same vein: "We are thinking seriously of cutting the organi-

zation to the bone . . . for the simple reason that we may be in for a fight extending over years, and nobody can know what the expense will be."

Ed Grimes, knowing John Sr.'s concern for holding salaries down, diplomatically wrote him about raises that were needed in the traffic department to hold exceptional men and pointed out that "the young men Flag [Flagler Flinchbaugh] has trained have been a little dissatisfied with their salaries. Being able to go out and get positions of responsibility at good increases in salary seems to indicate there was merit in the requests for more money." John Sr. was not interested in hearing this; he was preparing lists of people to lay off (one list included: "watchmen—drop one; traffic department, ——— not satisfactory; Margaret ———, understand n.g.; sample room release ———; ———, unnecessary at present; financial department, ———, poor and bad influence, ———, should only get \$125; accounting and terminal—drop 14") [names were given on memorandum but I have omitted them here].⁷

World grain production remained very high in the crop year 1938–1939. Corn was about the same as the previous year and wheat was down somewhat in the United States. But a bumper crop in Argentina and an excellent harvest in Canada helped to keep the total world wheat crop very high. A huge wheat carryover of more than 500 million bushels still remained. Prices in the year were very low, with cash wheat at Chicago averaging 69 cents. A "super abundance of wheat," the *Wheat Studies* editors once again put it. The second half of their sentence telegraphed an increasingly urgent dimension of food policy: "in a world teetering between limited, insecure peace and widespread warfare." Government controls or intervention were in vogue practically everywhere, they stated, with developments deeply affected by the protracted hostilities in China and by the Spanish civil war. "Even more influential," they continued, "were successive crises caused by Germany's aggressive diplomacy backed by her armed might." There was an "eagerness" to establish increased food reserves against the growing danger of a major European war. Austria had been annexed by Germany in March 1938; the Munich Conference in September of that year had ceded the Sudetenland and vital Czechoslovakian fortresses to them. By March 1939, Germany had gained Memel and was pressing for Danzig and the Polish corridor. In April, Italy had invaded Albania. The Italians then agreed to a military alliance with Germany. Then, on August 23, a Russo-German pact was signed in Moscow. John Sr. wrote his son Cargill on August 25: "We have had tremendous war excitement this past week and it has been an enormous strain on the organization."

Hostilities did indeed break out a week later, for Germany invaded Poland on September 1, 1939. Great Britain and France declared war two days afterward. World War II had begun. The grain trade, like all other institutions of the world, was now to change overnight.⁸

War Footing

From September 1939, when Great Britain and France declared war on Germany, to December 7, 1941, and the Japanese attack on Pearl Harbor, preparedness was the watchword for the United States. Just how much the country should support the Allies' war effort was fervidly debated for most of this time. There was a strong current of isolationism running in the country, particularly in the Midwest and the Plains states—a "business as usual" approach that put heavy emphasis on preserving existing domestic positions.

This was illustrated by the farm policy of the United States in the two years immediately preceding World War II. Since the first initiatives of the New Deal in 1933, national programs had sought to hold down the production of key commodities, especially cotton, wheat, corn and tobacco in order that "parity" could be tendered to the farmers. Under the first Agricultural Adjustment Act (AAA) of 1933, the focus was on parity prices. After the 1938 AAA legislation, farm prices were related to nonfarm prices and the rates between per capita farm and per capita nonfarm income debated. In effect, an "income parity" concept had been introduced. For income and parity price determinations, the presumably "typical" years 1910–1914 were used as the base period, and government efforts were designed so that farmers would have purchasing power equivalent to what they had enjoyed then. The experience in the decade of the 1930s is shown in fig. 1.

Price parity seemed always to fall far short of the goal. For example, in August 1939, wheat was 54 cents a bushel, just 50 percent of parity. Corn was selling at that time for 46 cents a bushel, a mere 59 percent of parity. Cotton was at 66 percent of parity, while hogs were at 60 percent. Of the major commodities, only the beef cattle price was at 100 percent.

The problem was that this parity effort had flown in the face of a burgeoning supply of those commodities that had created a volume of agricultural production in 1940 some 10 percent higher than when the New Deal programs had begun and a full 16 percent greater than at the close of World War I. New technology was a large force in this bounty. Crop yields had increased, and there were other improvements that had allowed the 10 percent increase, despite the fact that the number of acres harvested had declined by 38 million. Also there still were large numbers of underemployed people on the farms, because nonfarm employment was not strong enough to take up the slack. The excess of manpower tended to force more intensive use of land, rather than less.

The continuing bounty of these basic commodities (except in the two drought years midway in the decade) edged prices downward, widening the gap between price and parity. Thus, the government, dedicated to

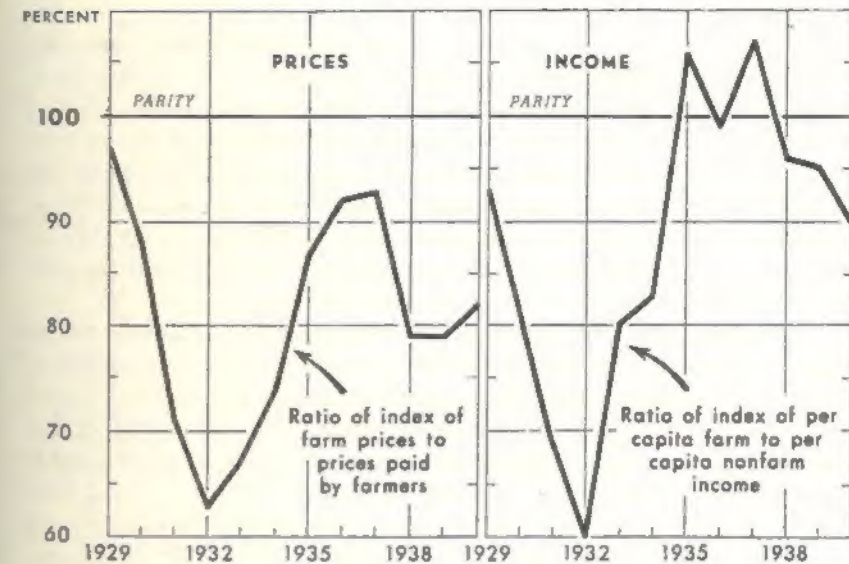


Fig. 1 U. S. DEPARTMENT OF AGRICULTURE REG. 46974-R BUREAU OF AGRICULTURAL ECONOMICS

holding prices and incomes up, was forced to purchase increasing amounts of these commodities for government storage. As long as it was peacetime, these purchases had been readily accomplished, although with huge subsidies and heightened government-owned surpluses in expensive storage. Suddenly, however, as the country entered World War II, with its necessity for tight controls and objective standards on all prices, the weaknesses of the parity system became more apparent.

With chronic problems of overproduction and underemployment, low farm incomes and an administration willing to pick up the slack by subsidies, it was not surprising that American agriculturalists entered the period of war preparedness and the eventual war itself wishing to hold intact the farm policy objectives of the 1930s New Deal. Their transition to wartime values and goals did not come easily. As agricultural economist Walter W. Wilcox put it, "The 'defense' period from May, 1940, to December 7, 1941 [i.e., from Dunkirk to Pearl Harbor], was a difficult period for agricultural leaders. Their peacetime objectives seemed inadequate when the rest of the economy was mobilizing for defense. For the most part, agriculture had no new goals."⁹

Still, there had been a few interesting new programs. For example, in May 1939, a revolutionary "stamp" plan was developed for the distribution of surplus supplies of food through regular commercial channels, the forerunner of what later came to be known as the Food Stamp program.

By May 1940, the National Defense Advisory Commission gained an agricultural representative, Chester C. Davis, but there was no comparable position established that would resemble the "food czar" post held by Herbert Hoover in World War I. In September 1940, Claude R. Wickard was chosen by President Roosevelt to become Secretary of Agriculture. Henry Wallace, a puzzle to the grain traders since his appointment in 1933, became FDR's vice-presidential running mate in the November elections. "Party regulars were aghast" about the choice of Wallace, wrote William Leuchtenburg, "an ex-Republican with little political savvy and a reputation for mysticism." But, of course, Roosevelt's ticket won.

In December 1940, a war-generated shift in policy was taken for the hog program by Secretary of Agriculture Wickard. He had become convinced that pork demands from the war required expanded production, despite the fact that the large number of animals already on the farms seemed to suggest a reduction. In late March 1941, the Lend-Lease Act was passed by Congress, and arrangements rapidly were mounted to ship increased quantities of pork, dairy products, eggs, canned vegetables and dry beans to Great Britain. With the exception of wheat, which remained in excess supply both in North America and Europe, most of the major commodity programs were stepped up to provide for expected increases in demand because of the war. In May 1941, Congress passed legislation that mandated loans at 85 percent of parity on five basic commodities—corn, wheat, cotton, tobacco and rice. Writing later of this development, Walter Wilcox stated: "This was the first step in the mistakenly mechanical use of the parity formula by the Congress and others, which caused so much difficulty in . . . equitable and economically desirable price supports and price ceilings during the war."¹⁰

Because of changing agricultural supplies and regimented prices, the period was a challenging one for grain trading companies like Cargill. Continued surpluses heightened the importance of governmental and private grain storage. The government already was building some of its own storage at country points, using steel bins (a forerunner of similar structures built by farmers on their own farms at a later date). The grain trade was annoyed by this, alleging governmental encroachment on private enterprise.

So Cargill too moved once more to increase its own storage capacity, as it had done in its large expansion from 14.7 million bushels in 1929 to 40.7 million in 1932. Now Company totals jumped from just over 51 million bushels in 1938 to more than 63½ million by 1940. The capacities at Buffalo had been vastly expanded—an addition to the Electric Elevator there increased this one terminal from 1.75 million to over 5.2 million bushels; with the Great Eastern and the Superior, the Company now had over 12.4 million bushels just at that one location. A larger Milwaukee railroad ele-

vator at Kansas City was leased (the leased Missouri Pacific Railroad terminal was relinquished), and the rebuilding of the damaged section of Cargill's own Omaha terminal in 1939 almost doubled capacity there, to over 9 million bushels. Smaller terminals also were added at LaCrosse, Wisconsin, and Sleepy Eye, Minnesota. The increased capacities allowed a much larger total for grain receipts in these years. In the crop year 1938–1939, the Company had combined receipts of over 148 million bushels at its terminals and its country and "leased line" elevators. For the next two crop years, 1939–1940 and 1940–1941, the combined totals were just at 125 million bushels each year.

Prices had been stronger in the first of these two years, and the Company had shown a healthy net profit of over \$1,117,000. In the crop year 1940–1941, governmental confusion about the wartime effects on the farm programs and other related factors depressed prices and made profits more difficult to attain. The Company earned just \$105,000 that year.¹¹

Contrasting Management Styles

Except for John Sr., there was little looking backward at the Corn Case around the executive offices of the Company—at least openly. One early effect of the case, however, was a tightening of centralization in management, particularly into the hands of John Jr. The injured silence after the Company had agreed to the guilty stipulation that ended the case in March 1940, and Cargill MacMillan's memorandum to management explaining John Jr.'s role were unmistakable. Nothing was to be said about the case except through John Jr.'s personal decision.

In May 1940, John Jr. issued a memorandum to all branch office managers once again enunciating the essence of his philosophy of organization. As he put it, "a clearcut understanding of our theory of organization is necessary." At this point, he seemed subtly to shift his earlier definition of the "line and staff" organization, the version that he had carried with him since his work with General Foote in the field artillery unit in World War I. For the first time, the organization was characterized as "the staff type . . . as distinguished from the line type, the difference being that our Minneapolis executives specialize in certain functions rather than attempting supervision over many different functions as would be necessary under the line type." Inasmuch as there was potential for confusion under the "staff type," John Jr. continued, "it is my duty, or in my absence, that of Cargill MacMillan, to effect the co-ordination which is necessary, and to *establish responsibility in doubtful cases*" (emphasis John Jr.'s).

The branch managers were to be "responsible for the actions of *everyone* in their respective offices" (his emphasis), and on "all ordinary routine matters they and their subordinates should correspond directly with the

proper individual in charge of that routine in the Minneapolis office." The memorandum then listed the heads of those Minneapolis functions, but the memorandum ended with a blunt statement that in cases where there was a "twilight zone, when a doubt exists as to which department has jurisdiction," John Jr. himself would be the arbiter.

Not only did this memorandum telegraph additional evidence that John Jr. was centralizing Cargill's managerial decision making in his hands, but it also left in place some of the ambiguities and tensions that this system had bred since its inception in the mid-1920s. While branch managers were responsible "for the actions of everyone" in the branch office, this did not include any authority over the terminals in most of these locations. Indeed, the acute antagonism between Julius Hendel and Frank Neilson had perpetuated the sharp split between terminal management and branch management.

The portfolio of Ed Grimes was still varied, but now was concentrated on national affairs. This included grain pricing under wartime price controls and the allocation of railroad cars in the Northwest. At Cargill, new, younger men had entered the picture. Two were particularly important: Ralph Golseth, who was the only younger member of management mentioned in the memorandum (as assistant to John Jr. and Hendel), and Fred Seed, also a Hendel prodigy, soon to become the general manager of a new feed operation (and, in 1946, the first member of the Cargill board in his management generation).

There was an interesting contrast in management styles at this point when Austen Cargill came forward to the Commitment Committee in March 1940 with a set of proposals that would fundamentally shift the management of the country elevator system. The committee had had two years of experience by this time and already was assuming a major role as a policymaking entity. It had a critically important function in attempting to constrain a very strong chief executive officer, John Jr., a role it sometimes was unwilling or unable to meet.

The country elevator business had "changed materially," Austen began. "Competition is now largely confined to stations, rather than elevators at the same station. Normal trading areas of a station no longer exist . . . the trade will, for some reason or another, select a certain station for its trade center. Once that trend starts, many of the surrounding stations for a distance of 20 to 30 miles are seriously affected." Farmers had selected approximately 24 of Cargill's country elevators as their favored trading point, what Austen called "trade centers."

Here Austen was espousing a practical version of what geographers call "central place theory." Austen's proposal was to upgrade the facilities at these key points, with a particular focus on seven of the trade centers already owned by the Company. He wanted eventually a sum of \$84,000

for these improvements and now asked for \$40,000, which was promptly granted.

As a result of concentration on key "trade centers," important changes were made in the way that the country elevator operations were to be managed. In the past, said Austen, all of the line and leased elevators were in charge of agents, "whose activities were controlled in detail from the main office." With the changes out in the field—the diversified farming, the improved roads, the impact of trucks—the "old line elevator principle is no longer adequate to meet the situation. Management can no longer be centralized in the main office . . . it must be moved right into the elevator if that elevator is to survive." Each elevator would be in charge of a local manager instead of an agent, and the manager would be wholly responsible for the successful operation of the elevator. There would be a superintendent over these, but "the General Office . . . will provide the finances, do the accounting work and, except for special cases, confine its activities to an advisory capacity." In sum, each elevator was to be operated as a separate "profit center" unit.

Austen Cargill was anticipating here the decentralized system of authority and responsibility that later became a hallmark of American industry. This contrasted sharply with the view held by John Jr., that authority in the Company needed to be centralized, particularly in the hands of the chief executive officer. However, the country operations were different enough in their administrative demands from the rest of the Company to keep this contrast in management philosophies from becoming a sensitive issue at this time, particularly as John Jr. had never been interested enough in these to object.¹²

Education for Management

Into the early 1940s the Company's management training program had continued to serve it well. Not only Ralph Golseth and Fred Seed but others of their generation—for example, Erwin E. (Erv) Kelm, later to become the chief executive officer of Cargill—had moved into top management. John Jr. kept a strong personal hand in selecting new college graduate trainees. When James Ford Bell, the chairman of General Mills, who was advising the University of Minnesota on placement of its graduates, asked John Jr. for advice, he responded:

The inescapable conclusion . . . is that the overwhelming majority of these boys—certainly 60% and possibly 75%—should never go to the university [emphasis his]. These boys are usually sent to the university at great sacrifice on the part of their parents, while their capacity is such that they are utterly unable to benefit. The four years are not only wasted but worse than wasted [John Jr.'s emphasis] because the only result has been to introduce these boys to a standard of living which is higher than they can

possibly hope to maintain in later life. The contrast between the relatively high standard of living which they experienced at the university and that which they must perforce accept in later life is such as to make them disgruntled citizens with a feeling that something is wrong about our entire social and economic system. These men, in our opinion, constitute a grave menace to our institutions, traditions and ideals.

Most college students should be in vocational schools, he felt, thus making "a university education a privilege and not a right." The majority of the young men who had come to Cargill, according to John Jr., while having a "high order of native intelligence," were "completely lacking in the rudiments of a liberal education." He decried the "vast multitude of alleged economic and business courses" and advocated a strong set of "cultural subjects." Eastern universities offered this liberal education, which had allowed its graduates "an immense advantage in the competitive struggle in executive talent." Yet he emphasized that

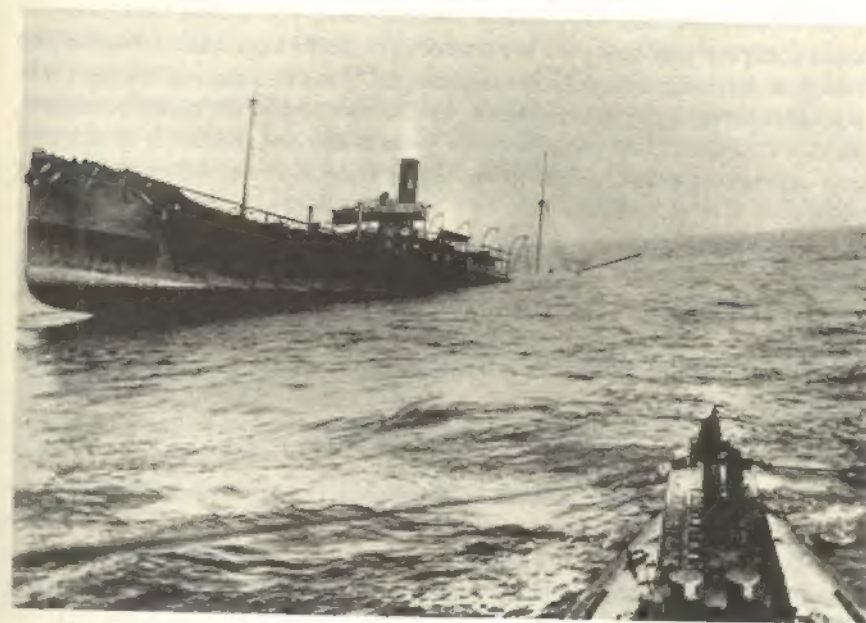
this is not intended as a brief for the Eastern universities . . . our own experience with Harvard, Yale and Princeton graduates has been extremely unsatisfactory . . . the personnel bureaus of these schools have passed on to me . . . men who looked upon a degree from Yale, Harvard or Princeton as a guarantee against their ever being forced at any time to work hard. We do not want this type at Minnesota. We do want to continue the traditions of a willingness for hard work which, in our opinion, is the greatest asset of the Western universities, and especially Minnesota.

These views once again seemed to contain a combination of admiration for privilege and the development of a meritocracy among those chosen few who had the intellect *and* connections to graduate from one of the culturally oriented universities, at the same time closing the avenue to those who were uppty.¹³

A First Venture in Ocean Shipping

John MacMillan, Jr.'s creativity surged once again in the late 1930s and early 1940s. It was a singular period for Cargill innovations—and John Jr. was the prime mover in most of these. Despite misgivings in most of the organization, John Jr. himself now carried the Company into a dimension of the grain trade not yet attempted by Cargill—ocean shipping.

The opening of hostilities in Europe early in September 1939 inevitably changed the equations on world trade, grain trading included. The *Wheat Studies* editors reported: "Only one anxious month of the season had elapsed before Germany launched her *Blitzkrieg* in Poland. This precipitated a widening involvement that strained and eventually racked all of Europe and much of the outside world. The seas were unsafe from September onward."



Grain carrier being sunk by German U boat, c. 1942 (The Bettmann Archive).

It was this latter dimension that particularly caught the eye of John Jr. There were going to be heavy shipping losses in the future and a great need for replacement shipping. Could the supplier of this be a totally new entrant? John Jr. thought so. Over the fall and winter of 1939–1940, Cargill developed a set of proposals for ocean shipping, the units to be planned *and* built by Cargill despite the fact that the Company had never constructed *any* oceangoing vessel. The evolution of this idea is clearer when the special role of Michael R. "Mickey" Cross and his British group, Ross T. Smyth & Co. Ltd., is examined.

Mickey Cross had been both a personal and a business friend of the MacMillans for a number of years. Since the early 1930s, when Cargill began to develop its "listening posts" in Europe, the Smyth group had acted as informal British representative for Cargill.

The relationship had sometimes been clouded by potential conflicts of interest. For example, in Argentina, Smyth represented other grain companies in direct competition with Cargill. Despite this, however, Cross had strongly influenced Cargill to get more involved in Europe. As he put it to Cargill MacMillan in January 1938, "you were selling to Bunge, Dreyfus and the Continental on the assumption that you would not be able to compete in the export business against them. . . . If you could bring your-

selves to take the first step, at any rate on corn, you might find that you could compete and compete satisfactorily." Cross urged the Company to change its basis for competition in Europe: "This business of selling f.o.b. to your competitors is no doubt very attractive to you on many occasions, but . . . you get rid of the good at a time when the market is good, and leave yourselves with the bad to be disposed of at a time when the market is bad."

By mid-1939, with war imminent, England had instituted special arrangements to import grain from the United States. At this point, Cross pushed Cargill to become involved with the Norris Grain Company in a joint endeavor to solicit British purchases. While Cargill always had resisted any form of joint effort ("our dislike of joint deals," as Cargill MacMillan put it), the two companies did come together for some corn sales in June 1939. Cross then suggested a bolder step—that Norris and Cargill link at least some of their efforts more formally. Ed Grimes resisted this: "If it was strictly a joint account transaction . . . we would have to merge our export departments and operate as one organization. . . . We have always been very independent—I think the same can be said of Norris and my association with him has shown him to be just that. I do not know how two very individualistically minded outfits would work together."

Grimes spelled out some of the practical difficulties: "It came out pretty clear that we [had] different viewpoints when it came to putting out a hedge on the last purchase of wheat from the FSCC [the United States governmental selling agency for grain to England]. We wanted to hedge and Jim did not." Grimes also pointed out, that in the main, Norris operated through Canada in moving grain for export, while Cargill moved its export grain through Albany, "and these two routes are intensely competitive. . . . Jim has a lot of money invested in Canadian boats and I just can't see where he will ever look favorably on the U.S. route."¹⁴ The Cargill/Norris arrangements continued but only on a desultory basis.

Instead, the Ross T. Smyth link was now exploited for a wholly Cargill plan. The Allied shipping losses in the fall of 1939 and the scramble by ocean shippers to increase their fleets encouraged John Jr. Quickly, as was the style of John Jr., the proposal grew startlingly large: that Cargill would design, build and own three oceangoing grain-carrying vessels, each to be some 400 feet long and each having the capacity for 13,000 tons of grain. This idea would be so demanding of both Company and family capital, as well as time, that John Jr. decided that he needed to provide a full-scale elaboration of his thinking, in writing and in detail. In September 1939, he issued a noteworthy document to Cargill management entitled "Ocean Transportation and Its Relation to Cargill, Inc."

He first described Cargill's export experiences of the 1920s and early 1930s, when Cargill management "became greatly alarmed by the incur-

sions being made in the West by European importers and New York exporters, who began opening offices in the West, leasing elevator facilities and crowding Cargill out of the handling of all export grain. . . . Accordingly, a 'drang nach Oesten' [literally, 'the urge to go East'] was initiated." Here he recognized the opening of the European offices, the building of the Albany terminal and the other Atlantic Coast efforts.

He continued: "The situation . . . as of August, 1939 was as follows: Three firms were doing the bulk of the North American export business with Cargill in fourth or fifth place, and steadily losing ground." Dreyfus was the largest, next was Continental and in third place was Norris Grain (Bunge y Born was considered by John Jr. to be vying with Cargill for the fourth place). Cargill was obliged to distribute to destinations undesirable for the vessels of Dreyfus and Continental. Thus, Cargill was "unable to compete in such important ports as Rotterdam, Antwerp, London and Genoa, but was very strong in Scotland and Scandinavia." As to Norris, "Cargill could compete . . . from the Gulf and Pacific, Norris having no ocean steamers, but had difficulty competing with Norris from North Atlantic ports . . . long ocean hauls from the Gulf and Pacific ports to Europe had great appeal to Continental and Dreyfus, so Cargill had great difficulty even then." In brief, Cargill had to do something innovative or find itself in the same predicament as in the 1920s.

One successful step had been taken by Cargill, John Jr. pointed out, with the acquisition of the six towboat/barge units for the Erie Canal. In these endeavors, Cargill had become a specialist at efficient barging and efficient self-loading and unloading of grain. As John Jr. put it, "the Cargill organization prides itself more on its ability to adapt engineering principles to result in cheaper and better grain storage and handling than in any respect." What was needed, he felt, were oceangoing vessels devoted exclusively to the handling of grain and containing self-loading and unloading devices.

The memorandum then spelled out John Jr.'s vision of these ships. Their "extreme simplification of design" would allow a "remarkable cheapening of cost without being in any way at the cost of safety or efficiency." This set of tenets was characteristic of all of John Jr.'s projects. He consistently strove for the simplest ways of conducting every segment of the business, and there was no doubt of his desire to do this at bedrock cost. Generally, he took safety very seriously; it was on the score of efficiency that he was sometimes faulted. John Jr. informally had checked with the American Bureau of Shipping (the agency for certification of seaworthiness) and reported that "they have approved the design for classification to their highest rating" despite the fact that "it has less steel in the hull per ton of deadweight than any vessel which has ever been approved by them." John Jr. estimated the cost of the vessels to be \$650,000 each—\$50 per

deadweight ton. The memorandum concluded: "On the twelve million bushels which the three grain carriers should transport yearly, this gross revenue would amount to something like \$500,000. A large part of this could reasonably be expected to be net."¹⁵

To put it simply, because Cargill had built several steel grain barges at its yards at Albany, therefore it could build three huge, full-scale, ocean-going ships. The cocky audacity of this must have seemed to many people to be outright self-delusion. But Cargill did have special expertise on several scores that made the Company a credible and attractive prospect for being included in the huge shipbuilding effort now dictated by the war. In addition to its specialized loading and unloading devices, the Cargill-built steel barges were themselves innovations—the single-skin steel hull, adapted to a large-size barge design, as well as the innovative device of the V-notch rear of a barge to fit into the tug. While many of Cargill's ideas were not applicable to an oceangoing ship, these amateurs—John Jr., Frank Neilson, Chris Jensen and their colleagues—already had gained an expertise that made their new ideas not completely outlandish. The stated driving force for all this was the emergency shipbuilding program itself, spurred by the Maritime Commission and the armed services, along with their counterparts in England (with the unstated additional benefit to Cargill of gaining further privacy for its plans by serving as its own ocean shipper).

Although American shipping had stayed out of the war zones of the North Atlantic and environs, the attrition on the world's maritime fleet already was significant. Substantial shipbuilding subsidies were available from the Maritime Commission that would provide about 45 percent of the cost of construction. A would-be bidder had to meet certain specifications. For example, the speed of a merchant ship could vary quite widely, depending upon the horsepower of its engines and the configuration of the hull. The English were particularly concerned that shipping have enough speed to be able to keep up with the convoys now increasingly required. Insurance rates skyrocketed if speeds were so low that a ship had to travel on its own.

To join this fast-breaking game, it was imperative that Cargill develop a workable design quickly to meet the deadlines for the subsidies. John Jr. engaged a first-rank naval architect, George Sharp; he and Neilson, too, were deeply involved in the detailed design phase. John Jr. stated his broad beliefs in a wire to Neilson on October 9, 1939, for transmittal to Sharp's head of design: "Tell him . . . we want a unit which will work a good share of time especially in winter at 40 feet and that it must be economically sound at that draft, which means maximum carrying capacity. . . . We want to exceed 40 ft. of draft only by as much as he and Sharp are willing to go along without increasing arbitrarily the usual stresses and horsepowers. . . . On this basis it strikes me we should get by with 10 to 12 thousand

tons of steel and 6 thousand h.p." (The American Bureau of Shipping had a required set of ratios and stress figures, whatever the final configuration.)¹⁶

Cargill MacMillan explained to Ed Grimes the concern about deep draft:

John's idea has been that if we could provide our boats with self-loading and unloading equipment, the draft would not be the factor that it is with the ordinary general cargo boat. . . . We could increase draft and cut down our length, thereby saving enormously in the quantity of steel required. . . . Speed is not an essential requirement for a grain carrier. . . . In normal times the slower the carrier, the better [he was assuming here that the Company would earn carrying costs for each day of the voyage].

This is not true for general cargo. . . . If we are willing to accept a speed of about eight knots, the h.p. requirements would be, roughly, 1500, whereas if we wanted a boat for general cargo purposes, we would want a speed of somewhere around 14 knots, which would require somewhere in the neighborhood of some 5000 h.p. Saving in initial cost is obvious, when you consider that the rule of thumb is that each h.p. costs approximately \$100.00.¹⁷

As the proposed ship began to take a more specific form, it turned out to be huge. The plan was to build at 700 feet in length, 108 feet in width and 95 feet in depth, with a draft of some 70 feet and a gross tonnage of about 52,500 tons. John Jr. estimated that this would give a grain capacity of approximately 5 million cubic feet, divided into 26 separate holds. For power, there would be twin screws and rudders, each screw to be propelled by twin diesel engines of 1500 hp each. Given this size and power, the ship's sustained sea speed at the designed draft would be about 8½ knots.

John Jr. also began contemplating ways of providing for self-unloading onto floating elevators. He thought these could be placed in a neutral port, possibly Lisbon, Portugal or the Azores, so that grain could be sent from North America to these intermediate unloading facilities, with British ships providing the rest of the route to the war zone. The Neutrality Act had been passed by the U.S. Congress on November 4, 1939, and grain shipments abroad were subject to control, lest they fall into the hands of Germany. Neutral ports often were suspect.¹⁸

What Size Ship to Build?

With George Sharp's ship on the drawing board and plans worked out with Frank Neilson for transshipping, John Jr. now needed a firm contract to avoid being forced to go ahead alone. The costs of the latter alternative being heavy, the search for a buyer was a high priority.

As the British were one of the major purchasers of new shipping, John Jr. once more enlisted Mickey Cross. Cross learned that authorities at the British Control Board had already discarded a transshipping port at Lisbon

because Australian wheat already had been offloaded there with poor results. He also stated that the British were interested in smaller ships, 8,000- to 9,000-ton vessels, and wanted the speeds to be higher than the original Cargill proposal (the presumed convoy speed being $9\frac{1}{2}$ knots).

The chance to sell ships to Britain might be a lucrative one, for the British at one point intimated that they might order 10 vessels from Cargill. The detail involved in these proposals was massive, and the process was complicated by the fact that all negotiations had to be conducted by cable. At one point, in March 1940, it appeared that Cargill would get a firm bid on four vessels 300 feet in length and 40 feet in depth, with a 50-foot beam. At a draft of 30 feet, this vessel could hold 8,900 tons of cargo. The British seemed uneasy about Cargill's design, for John Jr. had proposed some variations in conventional practice in order to be able to use the Albany shipyard. Cross wrote: "I have of course been asked why the design follows lines which are entirely unusual. . . . All that I have vouchsafed is that I think you are translating into shipbuilding the experience you have gained in elevator construction [which] . . . were scoffed at by the conservative element when first put into operation but had proved to be successful [so] there was no reason why the same principle should not work satisfactorily when applied to ocean-going vessels."

All through these negotiations, Cargill management had assumed that it could subcontract substantial parts of the boats to existing shipbuilders but in early April found that the yards of these companies already were tied up. Further, the British made it clear that they needed the vessels earlier than Cargill could guarantee. Finally, the whole project fell through.¹⁹

The same frustrating set of events happened with the Company's proposals to the United States Maritime Commission. Again there was complex bargaining on details, and a firm proposal could not be agreed upon. Costs were very difficult to pin down. For example, insurance on ships had to include "war risk," and it was uncertain what price these premiums would command in the future. Once again Cargill was seen as too new in the business and too unconventional in its proposed building methods. John Jr. blamed the naval architects in a long letter to his father in late March 1940: "They are unwilling to consider anything which is beyond their experience, regardless of whether it is sound engineering or not. This makes it extremely difficult, as of course we are trying to work out a design suited for our own particular requirements, which are not those within their experience. . . . It was either a case of taking the whole design on which they insist or we could not take ships at all as we are in the awkward position of not being able to use Lloyds registry on account of the delays in sending plans back and forth to London, etc."

However true this was, the unpleasant conclusion of the negotiations

of late 1939 and early 1940 was that Cargill did not get a single firm contract for building ocean shipping. At this point, Cargill MacMillan wired Neilson: "Junior thinks looks as tho would have to build ourselves in which case thinks would be better if you came home."²⁰

John Jr.'s plans for going ahead on his own were quite ambitious. As these progressed, the numbers of ships in his proposal grew to eight. This upset his brother Cargill, and he wired John Jr.: "Pete [John Peterson] and I very much worried. . . . We are not impressed with Chris' [Chris Jensen] record to date and without further evidence we would not be willing commit ourselves to 8 ships in 20 mos. Neither of us, however, wish to put spoke in machinery and are willing to defer to your judgment providing it is judgment and not wishful thinking. We want to lend every encouragement but wish proceed cautiously."²¹

Finally, it was decided (by the group overruling John Jr.) that there would be just one vessel—but a large one. The final configuration was to be a ship of some 437 feet in length; beam, 60 feet; depth, 37 feet; and draft (loaded), 28 feet 3 inches; deadweight tonnage, 12,500; cargo capacity, 12,200 tons. Already, the Company had much of the requisite steel on order, and Chris Jensen's work force could be readily expanded. So the building began.

The method of construction developed by Frank Neilson and Chris Jensen was unorthodox, so much so that John Jr. actually had his patent attorney inquire as to the possibility of a "method" patent. In writing the patent attorney, John Jr. elaborated these differences:

The present method of shipbuilding involves the use of an extremely expensive way in which the hull is assembled and riveted or welded. After assembly (a period which requires ordinarily from 8 to 16 months) the hull is launched and the ship is fitted out afloat . . . a fabulously expensive way, requiring the use of a very slow moving gantry . . . the pre-fabricated sections are brought to the work.

The technique which we are employing eliminates entirely the need for a gantry or expensive way and consists essentially in bringing the point of assembly to the material.

. . . the hull is erected to the point where it will float (requiring about $\frac{1}{4}$ the amount of steel in the finished hull) . . . the work is done either in a very simple and inexpensive way or in a floating drydock, or even on barges.

After being afloat the sections are lowered into place by the use of an ordinary stationary crane (not a gantry). Sections weighing from 5 to 25 tons are swung into place, fastened temporarily, and then welded at their convenience by welders who remain on the floating hull. The hull may be moved forward and back or turned end for end in order to keep it on an even keel. The fabrication of panels can always be kept at one point, where automatic welders enable it to be done in the cheapest possible way, while the cost of moving the hull itself is trifling as compared with the cost of manipulating a slow moving gantry, as is done in the standard shipyards.²²

The costs, John Jr. vowed, were "not more than one-fourth those cus-

tomarily found in a shipyard . . . This technique was worked out by our organization as a result of long experience in the maneuvering of floating rafts of logs and in the handling of heavy logs and timbers in our lumbering operations" (devised by John Jr., Austen Cargill and Frank Neilson in the British Columbia woods in the early 1920s). John Jr. left no doubt about his pride in "the Cargill method". "Beyond any question [it] represents an important revolutionary method in the art of shipbuilding."

The welded bow and stern were unique and had not been tested in practice before. Rather than large curved plates, giving the conventional rounded bow and stern, the Cargill method had sections welded together in a knuckle joint, so that the bow and stern had a series of straight plates, each changing direction slightly (i.e., looking like a knuckle). After this boat was launched, in late 1941, the head of the David Taylor Model Basin, a Bureau of Ships, Navy Department, testing laboratory for boat hulls, commented that Cargill's hull configuration "is most unusual . . . apparently adopted to simplify bending of the hull plates." Later the testing agency ran model tests on it. Fairbanks, Morse & Co. (suppliers of the engines) in their *F-M News* called the shipbuilding process "revolutionary," despite the fact that, according to their editors, "there was a great deal of speculation as to whether an inexperienced firm could successfully overcome the handicaps."²³

Should the Carlantic Be Sold?

Under the innovative construction strategy of Frank Neilson and Chris Jensen, the Company's new oceangoing grain carrier began to take shape rapidly over the fall of 1940. It seemed natural to continue the Cargill protocol for boat names—the new boat promptly was named the *Carlantic*. The Company, not willingly, was itself financing the entire operation. Frank Neilson had written John Jr. in late October 1940 of the possibility of getting a governmental subsidy, but he pointed out that "it would be necessary to maintain ownership of the vessel until after it was in service, then it must be replaced by a vessel having a speed at least 12 knots . . . or a vessel . . . approved by the Maritime Commission as being valuable for National defense purposes." Neilson doubted that the Company could meet these requirements.

John Jr. now began to consider selling the boat, rather than putting it into service as Cargill's own grain carrier. He put the reasons cogently to Hugo Scheuermann, the Chase National Bank vice president, in a letter on December 11, 1940: "They are quoting such high prices for [purchase of] ocean shipping at the moment that I do not think we can afford to own the boat . . . we should sell it for a tanker instead of finishing it as a grain carrier." At this point in its construction, the boat readily could be con-



The Carlantic on its maiden voyage, November 1941.

verted to an oil tanker, and it was on this basis that John Jr. now began to approach potential buyers. "Our minimum upset price for sale as a Tanker," he wrote in late December, "should be \$1,300,000 and it is believed highly probable that we can secure \$1,500,000 sometime during the next six months."

Earlier in 1938, Cargill had acquired a 42-year-old laker, the *W. D. Rees*, a 396-foot vessel rated at 3,760 gross tons. With such extraordinary sales prices for ocean shipping, the Company now considered selling it as an oceangoing vessel, most likely also converted to a gasoline tanker (one bidder wanted it for a Trinidad–Montreal route). It would be necessary to get the *Rees* out of the Great Lakes and through the St. Lawrence. After that, considerable refurbishing would be required to make it qualify for ocean travel. The *Rees*, however, could not squeeze through the Lachine Locks, upriver from Montreal, so John Jr. suggested to Neilson that the vessel could be sawed in half and moved through as two units. When Neilson seemed skeptical, John Jr. wrote back: "It seems the *Rees* is 3 inches too wide to be floated out on her bottom. But in the last war at least one

was cut in two and floated out on her side. Seems to me the only expense involved in doing so would be cost of welding hatch covers for eight or ten feet of length and of fastening pig iron to the rail sufficient to make her float on her side." Neilson agreed that, technically, this might be accomplished, but after a detailed evaluation, the transporting and refurbishing costs seemed inordinately high, and the project was abandoned.²⁴

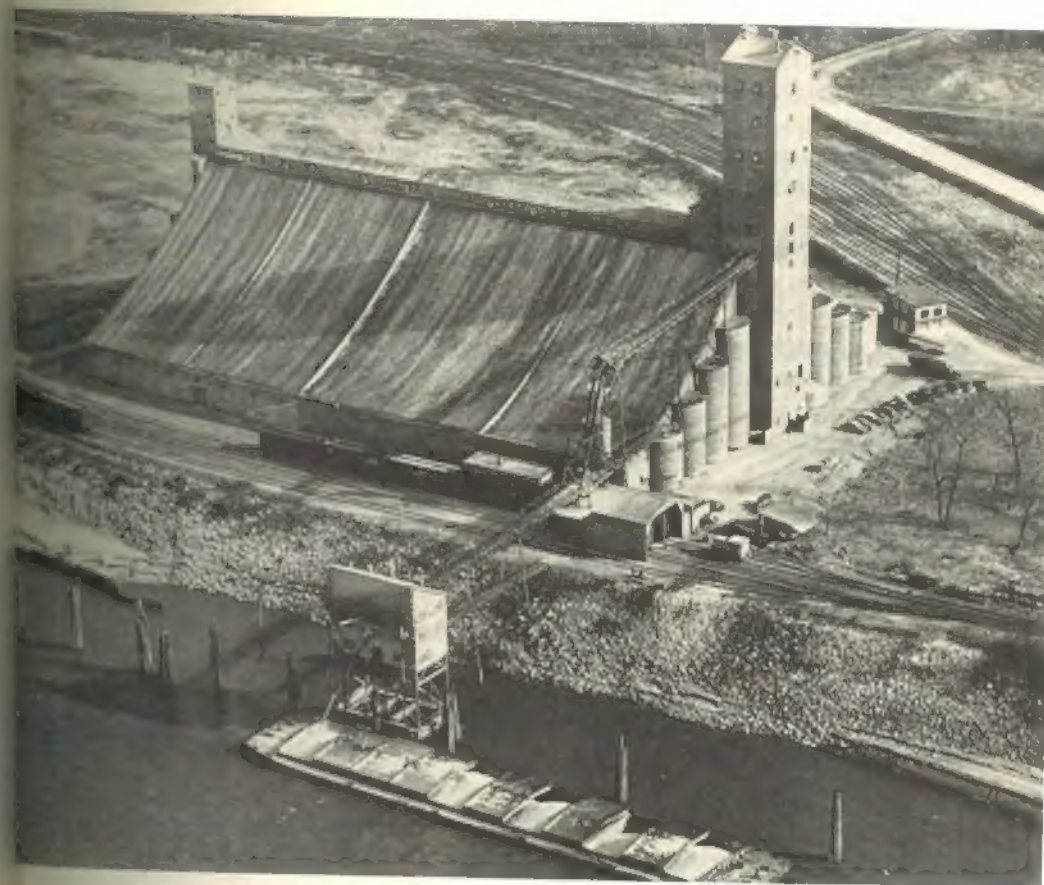
When the calendar-year financial statements became available, the enormous effect on Company resources from the costs of building the *Carlan-tic* were more evident. John Sr. wrote John Jr.: "We are in a quandary as to what to do about the boat. . . . We have spent so much money we don't dare take any further chances."

Elevator Problems

The situation was made worse by two other unexpected financial drains at that time: the addition to the Buffalo elevator and the building of the East St. Louis elevator. Buffalo had cost much more than expected (labor costs had risen sharply there). At East St. Louis part of the newly constructed elevator was sinking into the ground, resulting in an unanticipated need for additional, expensive pilings (and John Jr. hated putting *any* money into pilings). Cargill MacMillan wrote John Jr. on February 4: "The Buffalo elevator finally cost nearly 50% more than we anticipated, and as for the St. Louis elevator, there just literally isn't any bottom in sight" (he meant the money, not the pilings!).

John Jr. pulled Frank Neilson from shipping to assess the piling problem at East St. Louis. Cargill MacMillan wrote John Jr. after Neilson had returned that the total cost of the elevator had escalated to something over \$1.3 million. The total of all these costs "would indicate an out-of-pocket loss to working capital of \$1,826,000. . . . I am considerably concerned that this excess in cost might rock our very foundations were we to run into some heavy losses." John Jr. was contrite in his return letter: "The figures on Buffalo and St. Louis horrify me beyond belief. The error, which of course was mine, was in attempting too much at once and then trying to hurry it."

The difficulties in East St. Louis soon brought concern from outsiders. Bert Lang, the longtime banking friend of the Company from St. Louis, wrote John Peterson, "Just between us girls," there seem to be rumors in the air down here that the new elevator may not be a howling success from a construction standpoint. . . . Some fear that it may not stand up under a load." Peterson quickly responded, attempting to allay any fears: "Apparently a not too serious engineering mistake was made with respect to the building of the first half of the elevator, the practical effect of which is that we shall not be able to load that section of the house to full capacity



Cargill's East St. Louis terminal elevator, 1940s.

as originally contemplated. The mistake, however, is being corrected in the second half of the house, so that when it is completed it will support a full load."²⁵

A New Ship?

However, John Jr. did not really mean it when he told his brother that he was "attempting too much at once," for now he began yearning for and pursuing the construction of another vessel. The financial situation in those first months of 1941 had improved—the grain business had picked up greatly. Beyond this, there was a frenzy about construction of shipping that affected everyone, the Cargill group included. There had been huge

losses in Allied merchant shipping from U-boat attacks; in the week of November 17, 1940, some 22 ships, totaling 187,975 tons had gone down, thus "maintaining the weekly average . . . at the dangerous level of approximately 100,000 tons," reported the *New York Herald*.

With this attrition, the British decided to send a high-level Purchasing Commission to the United States, hoping to book some 60 freighters for construction at United States shipyards. The Company immediately wrote Mickey Cross for help. Cross reported that his firm now had a temporary office out in the countryside, "as London became rather noisy and bits of old iron flew about." Cargill seemed willing to construct almost anything the British might want. Building for a government, British or United States, would provide priority for materials, particularly steel. John Jr. had heard that the greatest need of the British was for destroyers for convoy purposes and proposed to Neilson that they could make just such a vessel. Neilson wrote back: "I doubt our ability to sell the idea. The boats used now in this service are built with super speed because in case of attack they have to be able to circle their convoy and outmaneuver the attacking vessels. I am very much afraid the British would think our boats would not offer enough protection."

John Jr. then decided to contact the Purchasing Commission directly. The visit was not at all pleasant. Cargill MacMillan wrote Cross: "We have been given two of the coldest receptions (if you could call them receptions at all) by the British Purchasing Commission that it has ever been our lot to encounter. We are mentioning this to you because we are desperately anxious to see you win the war." Apparently John Jr. was particularly miffed, for Cargill noted, "My brother John has pointed out to me that, in his opinion, a single tactless representative can easily cost more than the loss of a battle."

Early in the British negotiations, Cargill made the proposal that some of its towboats and barges might be sent across the ocean, either for use in Britain for harbor and shallow intercoastal work or perhaps even for the eastern Mediterranean or Red Sea. This idea did not seem to appeal to the British at all.

Still not ready to give up, John Jr. wrote C. C. Boden, who was helping in the negotiations: "What do you think of our offering two to four tankers for 1941 delivery, any speed up to sixteen knots, provided buyers will go along . . . on what we can build and will take our present boat." The Commission quickly disabused Cargill of this idea. John Jr. admitted to Weston Grimes, "They would not dicker with us." Cargill MacMillan poured out his unhappiness about the negotiations to Mickey Cross, who replied, "I am very sorry that you have had such a cold reception . . . it is very sad to see that the bureaucratic tinge seems to spread over people who in ordinary life are ordinary business people the moment they get absorbed

in Government departments." Cross promised to make representations in London for Cargill, but this produced nothing.

The rebuff very much antagonized John Jr. He wrote Weston Grimes: "We get a terrific propaganda from the British to the effect that they are all but starving," yet the Company could not get them interested in any of its proposals. "It seems to me as if they are using their propaganda machinery in an effort to play us for suckers, i.e., they want us to go to the expense and take the risk of building boats against a possible shortage, and are trying to put this over by making us believe that the shortage is now acute."

The Company still was concerned that its unusual method of vessel construction and the resulting "different" bow and stern might be a factor in failing to obtain a contract. John Jr. wrote George Sharp, the naval architect, on December 11, 1940: "We are very anxious to agree on the next hull on which we will start work. Both Neilson and I are very insistent on building something which can be erected in the shortest possible time, and with the absolute minimum of fabrication, even at the expense of hull efficiency."

John Jr. himself made copious technical suggestions about the new knuckle form of construction, and he elaborated its theory to Sharp, impressively using the vernacular of Sharp's own world:

If I remember my dynamics correctly, the most efficient form moving through a fluid is a prolate spheroid with the maximum diameter at a point one-third from the length. A close approximation of the prolate spheroid is one terminating in two ellipsoids with the after ellipsoid having the same lesser semi-axes but with the greater semi-axis twice that of the shorter ellipsoid. I have had two ellipses with these semi-axis drawn up to the same scale as my pencil sketch. May I suggest that you super-impose the ellipses on my pencil sketch and note how close the correspondence is, considering that the pencil design has the maximum possible of straight lines?²⁶

An unexpected event occurred on January 23, 1941, just as the British possibility seemed to be slipping away, when Company officials were surprised by a visit from the United States Navy. John Jr. hurriedly wrote his father: "Yesterday the Navy came in and indicated some interest in our yard; or, at least, we think they did, for they wanted all the information they could get about it, and only gave us 24 hours in which to supply it." The Company rapidly put together a memorandum describing the history of the Company, its "financial set-up," its organization structure and its shipbuilding facilities at Albany. The navy queried Cargill about availability of the site and asked about the time required to start shipbuilding. John Jr. replied, "None, provided materials are available."

Once more there were nagging questions about Cargill's unorthodox methods and bow/stern configurations. These were yet unproven—the

Carlantic was still in the yards with its fittings just being completed, not yet tested under real conditions. Cargill MacMillan wrote John Jr. about some of the other government contracts just awarded: "The 200 boats . . . were of a knuckle form which we could not handle. As far as I can make out, this is the position we are in: No one is interested in the type of boat we can build, which gives us one of two alternatives; either (1) interest someone in what we can do; or (2) fix our yard so we can handle curved plates."

It was possible that the Company might get the government to finance the more expensive curved plate equipment, but Frank Neilson worried that the inexperienced Cargill workmen would not be able to handle this more sophisticated method. What the Company needed was some way to get the Maritime Commission and the navy to notice it, so in mid-January it asked to see the Commission plans that were just being opened for bid for a set of tuna fishing boats. Cargill MacMillan wrote John Jr.: "We were greatly amused yesterday when we heard from some engine company that we were the only people who had asked for the plans of this boat." Incidentally, nothing further came of the tuna boat project.²⁷

Another force was at work that was to save the situation. In early 1941, the navy was looking for new locations somewhere in the Great Lakes area for construction of shipping. Weston Grimes explained the navy's reason: "There has been considerable debate on the floor of the House to the effect that shipyards on the Great Lakes should be given some of the Defense business." Back in May 1940, Julius Barnes, John Sr.'s disputant in the Farm Board days in 1930, had queried John Sr. about the possibility that Cargill might join him to build ships in Duluth. Barnes had done this in World War I and wanted to do so again. John Sr. replied at that time, "The increased cost of construction on the Great Lakes as compared with elsewhere, added to the time expense of getting the boats out, makes it extremely improbable that any Great Lakes yard could compete."

But six months later, Frank Neilson became surprisingly bullish about this very idea, telegraphing back: "Could easily move our yard facility to Great Lakes or Mississippi areas." Cargill MacMillan asked him for specifics, and Neilson suggested Memphis; Superior, Wisconsin; and Chicago (St. Louis was discarded for lack of land and its tight labor situation). Weston Grimes added the possibilities of LaCrosse, Wisconsin, and Buffalo, but Neilson rejected these. John Jr. was by this time in Jamaica on vacation, exhausted and suffering from high blood pressure. Cargill MacMillan telegraphed Neilson: "In John's absence I hate to leave any stone unturned because I know he is relying on us to do everything he would do to make a success of our shipbuilding program."²⁸

In April 1941, John Jr. was able to return to the job, and now the pace of Cargill's search for new contracts stepped up. John Jr. flirted at this time

(and later, too) with the notion of a huge vessel able to carry a large number of barges, loaded through side openings. George Sharp, the naval architect, had proposed a 750-foot vessel, with four deck levels, able to carry 16 barges (36,300 tons). John Jr.'s version was 470 feet long to take 12 larger barges. Neither version progressed to specific plans.

By June 1941, a huge merchant shipbuilding program was under way in the country, linked to the national defense effort. With materials and equipment in critically short supply, a priority system had been established that made it imperative that a company have some link to this national defense work in order to get materials and supplies. This was precisely the problem facing Cargill.

On June 20, 1941, John Jr. submitted preliminary plans to the Maritime Commission for the construction of eight tankers of 15,000 tons deadweight, all of them to be capable of 16 knots. As the Company began to formulate specific details, both Frank Neilson and Chris Jensen objected to some of the Commission's terminology. As John Jr. put it to Weston Grimes, "Frank and Chris are adamant in that they will not tolerate the constant use of such words as 'straight,' 'plumb' and 'true.' . . . Neither Frank nor Chris are temperamentally qualified to stand for the arbitrary whims of inspectors." Weston Grimes worried about this: "If we take some arbitrary position and refuse to build except on our terms, we are not going to be in good graces . . . it is difficult enough to get the Commission to award any contracts to unestablished shipbuilders without injecting any special qualifications." In truth, the Company was not yet ready to follow through with specific plans and drawings, and in August the offer had to be withdrawn.²⁹

The Carlantic Becomes the Victoria

Neilson and Jensen had continued to oversee the completion of the *Carlantic*. The hull was launched on April 11, 1941. John Jr. was there, and he wrote his brother: "The boat hit the water simultaneously bow with stern, with the result that there was no damage whatever. . . . Not a leak of any kind—not even a pin-hole leak." John Jr., still sensitive about the Cargill method of construction, continued: "In the water its appearance is not in the least freakish." He estimated the total cost when finished to be somewhere near \$1 million, "although we may run somewhat above this in an effort to speed things up to cash in on these high spot freights."

Company executives still were ambivalent about whether to finish the boat as a grain carrier or as a gasoline tanker. The latter would cost an additional \$50,000. With either scenario, the Company still seriously considered holding onto the boat, either for its own use or for charter. The same oil company with the Trinidad-Montreal run, earlier interested in

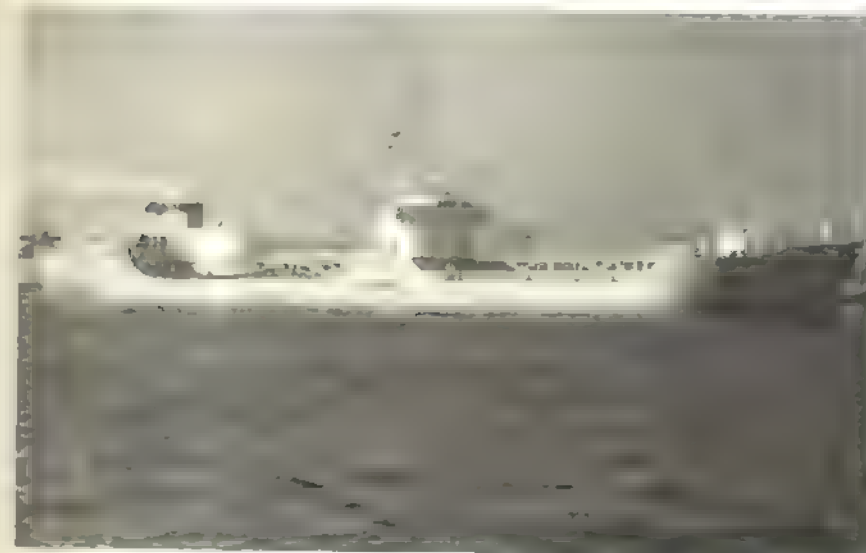
the *Rees*, now queried about chartering the *Carlantic*. However, if Cargill kept ownership, its working capital position, despite a good spring in the grain trade itself, would continue precarious. By early July, the decision was made to put the boat in the hands of a ship agent, Collin & Gissel, for possible sale. Several oil companies were approached, but none seemed interested enough to make a bid. A problem mentioned by the British at the beginning of the year, that the vessel was "too large and too slow to operate in convoy," seemed to make for reluctant bidders. The best candidate seemed to be a Portuguese Company, but the Maritime Commission apparently was reluctant to grant permission to change the flag from a United States carrier to a Portuguese carrier.

In August, another foreign bidder, Compania Argentina Navigation Ultramar of Buenos Aires, Argentina, came into the picture. Intricate negotiations, sometimes almost resembling a Keystone Kops plot, soon took place. At several points, the Company negotiators had the distinct feeling that the Argentine agents were just exploring to find out information. C. C. Boden, the head of Cargill's New York office, wired John Jr. about one of them: "He sounds like a screwball. Do not think at all serious but will keep working. Apparently he has just heard of the boat and thinks he can scalp."

But Boden was wrong. The Argentine organization made Cargill a firm bid, offering \$1,600,000. With some additional costs after the contract was signed, the Argentine group eventually paid Cargill a total of \$1,665,708. The Company added up its own costs, and they came, not to \$1 million, but \$1,600,682. After all of the difficulties related to the construction and sale of the *Carlantic*, the Company's profit on the effort was \$65,026.

But this small profit did not reflect the real values for the Company. In terms of pride of workmanship and credibility for the Cargill shipbuilding group, the completion and sale of the *Carlantic* was of great importance. With the boat finished in October 1941, it seemed wrong to continue to call it the *Carlantic*, now that Cargill was not to be its owner. Shortly before the formal dedication, the ship was renamed the *M. V. Victoria*. On November 10, a formal visitation aboard the vessel was held for federal, state and city officials, Albany dignitaries and other important members of Cargill's public. John Sr., John Jr. and Cargill MacMillan all were present for the festivities; Austen Cargill was the toastmaster for the banquet. The next day the vessel sailed down the Hudson, headed for sea trials off New York Harbor, preparatory to certification from the American Bureau of Shipping. These were a complete success, and on November 18, 1941, the Bureau gave its formal blessing.³⁰

The Company received wide acclaim for the *Victoria*, not only in the public press but in a number of the more technically minded shipping



The *Carlantic*, now renamed the *Victoria*, prepares to sail to South America, December 1941.

magazines. Perhaps the rhetoric at the banquet was overblown, that "most of the established principals [*sic*] of shipbuilding and the orthodox methods of proceeding were ignominiously dunked into the waste paper basket and Cargill, Inc. proceeded with pioneer spirit into their own channels of ship construction." The banquet speakers also boasted that the boat had been "the object of more wild speculation than would attend the building of a gross of similar craft under ordinary circumstances" and that "a great many people today are eating a great many words."

Indeed, the Company could be proud of its rather astounding success—to have built an oceangoing vessel at an upstate port that had never had such a project, utilizing unconventional methods and designs. When the *Victoria* set sail on its maiden voyage for Argentina on December 11, 1941, just four days after Pearl Harbor, John Jr. and his colleagues felt that they had accomplished a miracle.³¹

A Diversification Study Falters

It was not just ocean transport that interested John Jr.; over the period August to December 1939, an extensive study was conducted on another possible Cargill diversification. Herbert Warden, Jr., a family friend living at that time in Philadelphia was commissioned to help with this

Dubbed by Warden the "Distributing Plan," it contemplated using Car-

gill towboats and barges on the Mississippi River, including its upper reaches. (After years of agitation, the "nine foot channel" project of locks and dams between St. Louis and Minneapolis had been completed in 1939). Second, the development would be two-way, grain downriver and a backhaul from the Gulf all the way to Minneapolis, where on a piece of land to be acquired by the Company a distribution yard would be established. A 70-acre site had been identified in an area of South St. Paul, alongside the river.

The backhauls would include several basic commodities not already handled by the Company—coal, oil and lumber. These were not new ideas, for bulk coal had been carried from time to time on contract. Even back in the W. W. Cargill days in LaCrosse prior to the turn of the century there had been retail coal operations, and one of the backhauls of those days was coal from Pennsylvania. Further, the Cargills and MacMillans had shared ownership in lumber operations, both in the earlier W. W. Cargill days and, after the establishment of the Cargill Securities Company, with their continuing ownership of British Columbian and Mexican timberlands. Yet it was a new departure to consider being a wholesale distributor for these three commodities.

This was not all—there was a fourth component of the backhaul that was unique indeed to those in the Company who were used to dealing in commodities in their more literal sense. The Distributing Plan also proposed that Cargill become a wholesale purveyor of "groceries and food products" (Warden earlier had had experience in Jamaica tying together marketing of canned goods and trucking). As a component of Warden's plan for Cargill, the Company would need to establish a trucking operation, which it had been doing at Albany from the mid-1930s.

The Company made clear to Warden that it did not wish to have its participation known to anyone. This applied not only to those in the Minneapolis area who might be interested but also to the many companies to be contacted by Warden for information. Warden persuaded John Jr. to allow him to use Hugo Scheuermann's name (the Chase National Bank executive) as reference, while maintaining the confidentiality of Cargill itself. In these letters, the property itself was identified only as being in South St. Paul and along the Mississippi River. A crude schematic drawing of the 70-acre site showed it paralleling a double rail track, and the storage area was described in Warden's words as being "at the top of a perpendicular bank . . . about 50 feet high." An incline car hoist would have to be developed, as well as unloading equipment.

By October, Warden had contacted gasoline distributors, lumber mills and coal distributors, as well as several leaders among the wholesale grocery trade. Unfortunately for Warden, the incredibly fast pace of world events from the beginning of September, with the declaration of war

against Germany by England and France, had quickly changed some of the financial equations upon which the project depended. Cargill MacMillan wrote Warden a diplomatic letter on October 10, 1939. It began: "John and I are both agreed that we want to go ahead with the plans we outlined with you right up to the point where it comes to putting up the money." Noting that "we must know *just* how good our scheme is," he pointed to the impact of the outbreak of war on commodity markets; there had been a precipitous rise in prices that had cost the Company more to finance its fall buying. Also, as Cargill MacMillan put it, "the spectacular rise in ocean freights has made this field look substantially more attractive than river freights, which have advanced very little, if at all." The Company wanted Warden to finish the study, "for we feel quite sure that eventually we are going to want to get into the river transportation field," but there is no evidence that the Company intended to "go ahead and buy the property."

Warden pressed on with his analysis through the rest of 1939, at one point even suggesting special ways of unloading barge freight. Nevertheless, it was clear that building of ocean shipping now consumed John Jr.'s thinking and the Distributing Plan had been put on hold. However, the concept of exploiting a backhaul, already considered in the Company's Erie Canal operations, once again had captured management's attention. In later years, Cargill was more substantially involved in coal, salt and gasoline, but the lumber and grocery wholesaling idea never came to pass.³²

Diversification in Reality: The Feed Business

John Jr. was not alone in thinking of diversification. On June 12, 1939, Austen Cargill brought a proposal to the Commitment Committee to develop a modern elevator and feed plant at Lennox, South Dakota at a cost of \$26,000. In justifying a move into feed, he once again drew on historical contrast. Whereas the grain-producing areas had been monoculture (and therefore grain trading companies could run their line elevators simply, by centralized control), now there was widespread diversified farming. As Austen put it, "While the line of demarcation is indefinite, it follows a north and south course which moves in a westerly direction. In 1917 that line was within one hundred miles of Green Bay; today it is in the Red River Valley. It is impossible for a line elevator operation with centralized control to operate successfully in the area east of that line for any length of time."

To solve this problem, Austen wanted to develop "a highgrade type of local management," who would have the ability to carry out for the Company "the intelligent merchandising of side lines." He suggested coal,

building material, flour and feed. The last, he felt, had the greatest promise: "Farmers have recently changed their feeding methods . . . they have found the most efficient and economical feed consists of grinding their own grain and mixing therein approximately twenty per cent of the mixture called concentrates. Of all the numerous schemes to increase the efficiency of a country elevator . . . the manufacture and mixing of these concentrates into the ground grain of the farmer furnish the best solution."

Austen then sketched his plan for how the Company might position a modern feed operation. In the center of an area having substantial potential, a "Type A" plant would be located, one that could receive and store in car lots the ingredients for the concentrate, with facilities to maintain uniform quality control in its manufacture. There would then be a set of six or so "Type B" elevators/feed operations, with a grain grinder and a mixer to grind customers' grain and then mix it with the concentrates and with a warehouse for inventory. The Lennox facility, where the Company had leased a line elevator for a number of years, could be upgraded to a Type A operation.

The Commitment Committee agreed, and the new buildings were constructed without delay, culminating on November 8, 1939, with a "grand opening." The Lennox plant was renamed the "Farm Commodity Exchange," to sell (again a new name) "Blue Square Feed." This operation that Austen Cargill called his "Air Castles" was a noteworthy success for the Company. Soon other plants were built at key points—at Scotland, South Dakota; at Litchfield, Minnesota; Alfa, LaFayette, and Milroy, Minnesota; and at Rembrandt, Iowa. All of these marketed Blue Square feeds.³³

W. W. Cargill had sold feed at LaCrosse in the nineteenth century, perhaps as early as 1884. The Conrad, Montana, operation, started by John Jr. in the mid-1930s continued to manufacture feeds, not only poultry and hog feed but pelletized cattle and sheep feed (in spite of a setback due to a fire in 1937). In Montana, however, "Cargill" was used as the trade name. Later, Conrad too adopted the Blue Square label. Blue Square marked a truly significant milestone for the Company, one that put Cargill into the feed business, although in a relatively small geographic area.

Julius Hendel also had been interested in scientific feeds. On his own farm near Lake Minnetonka he had experimented with feeding poultry using his own formulas. In March 1941, a property became available in Minneapolis, one owned by the Chicago, St. Paul, Minneapolis & Omaha Railroad Company and leased to the International Sugar Feed Corporation. The latter had lost its lease (having failed to pay the taxes), and Hendel now proposed to Cargill management that the Company pick up the lease for its own feed operation. Hendel began to put together an organization of men to develop what came to be known as Cargill Feeds. At this time, just before the beginning of World War II, the two feeds—

Blue Square Feeds and Cargill Feeds (also marketing a small line called Du-All Feed)—were being produced and marketed by two quite separate groups within the Company. These were sometimes in competition with each other in certain sales territories. This important story will be discussed further in the next chapter.

Hendel, incidentally, had dabbled in some other interesting endeavors; he wired Cargill MacMillan in February 1940: "Just sold Kan 50,000 used Cuban sugar bags at profit 3 cents." In this same wire he referred again to a notion he had at this time—that Cargill might become a trader in ingots of forged chromium nickel steel, serving the machine tool industry. This idea did not become a live project, however.³⁴

The TNEC Study: A Paper Tiger

The feared Temporary National Economic Committee, the special congressional investigating committee set up in June 1938, held extensive hearings all through 1939, involving some 775 hours and calling 552 witnesses. Its reports were eventually released—31 volumes, 6 supplements and 43 monographs. Cargill and the rest of the grain trade had been apprehensive about these investigations, remembering the vast amounts of time spent in the early 1920s with the many-volume Federal Trade Commission study of the industry. In 1936, Cargill grudgingly had complied with the FTC request for data linked to a related study, its "agricultural income inquiry." This investigation had not required any grain trade appearances at the hearings. Now the TNEC bypassed the grain trade, too.

There were two parts of the TNEC hearings that discussed the agricultural and food industries. Once again, no grain trade officials were called. Only an assistant chief economist of the FTC, Colonel William H. England, appeared to testify about what had been learned in the 1936 inquiry about the grain trade. A small part of this earlier effort had referred to terminal grain markets, and the FTC had spoken only in generalities "that many of the practices which were the subject of criticism by the Commission's earlier investigations . . . still existed." The focus of the FTC at that time primarily had been on railroad-owned terminals, "leased by large merchandisers of grain at low rentals, giving the lessees an undue competitive advantage . . . such large merchandisers practically dominate both the cash and future markets." Their conclusions and recommendations, however, did not propose any significant change in existing ownership and management practices in the terminal grain industry.

In the final report of the TNEC on "Agriculture and the National Economy," the Committee returned to the belief held so strongly by the Farm Board in 1930 that cooperative marketing was a way of building more effective competition. Still, no specific recommendations were made, and it

seemed as if the TNEC had lost interest in the long-standing use of grain traders as scapegoats for farmer disgruntlements.

Indeed, the entire TNEC effort came to be considered ineffectual. As historian William E. Leuchtenburg put it, "the TNEC's shelf of studies brought knowledge of business operations up to date, but the total yield of the investigation proved disappointing . . . unwilling either to tackle the more difficult problems or to make recommendations which might disturb vested interests, the committee expressed the wistful hope that if it assembled enough facts, someone would be able to use them to solve the enigma of persistent unemployment."³⁵

Cargill and War Preparedness

The European war had permeated most peoples' lives since its institution in early September 1939. But it was the invasion of Denmark and Norway in early April 1940 that seemed to signal a full-scale world war was at hand. The Netherlands and Belgium fell to the Nazis in May, and the Anglo-French expeditionary force was forced to withdraw to England in the valiant evacuation from Dunkirk from May 28 to June 4, 1940. When France fell in June, the situation looked grim indeed for the Allies.

Cargill had been doing a substantial amount of its European grain trade from an office in Copenhagen, Denmark, with Almon Greenman as the local head. He wrote in *Cargill News* of his trials in bringing himself and his wife and child out of the war zone:

After considerable delay in obtaining German visas we started out for home via Germany and Italy. It wasn't until Denmark was invaded that we were fully aware that Copenhagen was located on an island. Then the sinking of ferries between Seeland and Fyn or Germany brought the geography clearly to our attention. It was reliably estimated by Danish and American observers that between 40,000 and 50,000 German soldiers lost their lives in the waters between Denmark, Sweden, and Norway. Danish fishermen found it more profitable to go after German dead at \$1.00 a piece than to fish, and many Danes remarked that they would not eat mackerel this year. Many Danish country homes were opened forcibly and filled with German dead to be shipped back to Germany by the trainload at night . . .

We took a ferry from Gedser in Denmark to Warnemunde in Germany. The route was marked by buoys every 100/150 yards and presumably mine-swept. But on nearing Warnemunde we could make out a big ship that could have been a transport lying down at one end.

Our trip through Germany was uneventful. We had 24 hours in Berlin. There were not many fine looking men nor noticeable business activity: the frightful attack on Holland and Belgium was underway. . . . There is an attempt to impress travelers, particularly Americans, in this respect.

We went on to Italy. . . . Two days each in Genoa and Florence before embarking on an honest to gosh American boat in Naples . . . Back in Genoa on the 'Manhattan' we heard that the sailing of the 'Rex' to New York had been cancelled indicating that Italian entry into the war was more likely. Friends who had secured excel-

lent bookings on that Italian ship were immediately looking frantically for accommodations on our boat or smaller U.S. ships.

Our trip across was uneventful. We were not stopped at Gibraltar, and Italy did not come into the war until the day we docked in New York. But many of us were disturbed at the high percentage of people, German by birth, in the ship's crew. The radio news programs received on board were heard by large crowds with keen interest.

Meanwhile, Leonard L. Corlett, the Cargill representative in Rotterdam, was attempting to leave the Netherlands. He described the problem:

We discovered that immediate departure was no simple matter. Special permits or visas were required to cross all frontiers. Crowds were excitedly besieging the Belgian and French consular employees for application forms and photographers were working overtime taking passport size pictures. We needed fifteen of them for each of us. In normal times visas are ordinarily obtained in a few moments, but war time conditions necessitated the filling in of lengthy questionnaires. It required almost an entire day to get these papers prepared in a presentable fashion.

Fortunately, the American Consul General intervened in our behalf so it was not necessary for us to be delayed ten days or two weeks for a favorable consideration by the foreign departments in Brussels and Paris. After three days of waiting in stuffy offices, we were able to start for Antwerp, where our first visit was to police headquarters to obtain permission to remain in the city for more than 48 hours.³⁶

Back at the Company, there were numerous efforts at war preparedness. An interesting decision was taken by the Company's board of directors on June 20, 1941, regarding employment of female personnel. The depression had led many companies, Cargill included, to allow the hiring of only one member of a family, and this was nearly always a man. Single women kept jobs (like men) if they were the only source of family income, but married women were not hired. The document explained a new policy as follows:

TO ALL DEPARTMENT MANAGERS

Because it is becoming more and more difficult for us to find suitable new employees the Directors feel that we should suspend the rule regarding married women. Until further notice, therefore, it will not be necessary for us to replace, within six months, women who marry while in our employ.

We do ask you to explain to these girls . . . that the rule has only been suspended, and that the day may come when we decide to re-instate it. In some instances it may also be advisable to point out to a girl who marries that it is going to be pretty much up to her to show us that her new responsibilities are not interfering in any way with her work, as so often happens.

We will also now be free to employ a woman who is already married, where that seems the best thing to do, but we would like to confine such employment to temporary positions, and we ask that before you hire any married woman for a permanent position you clear the matter thru Mr. Ralph Golseth or the Personnel Department.³⁷

All through this period, significant segments of the country were fundamentally opposed to the preparedness efforts of the administration. Bob

Jaccard, the Company's Grain Department crop reporter (successor to Daniel MacMillan), commented on this in the August 1940 *Cargill News*: "The United States is at war, that is, East of the Wabash River. You leave the Middle West, Missouri and Illinois feeling fairly secure, then start crossing Indiana and by the time you reach Central Ohio you look in hotel closets and under the beds for 5th, 6th or 7th columners. . . . Maybe I'm wrong but I thought all portions of the U.S. were one and the same country. We'd better wake up out West before we find this war is all over with and we missed out on the fun, because it's sure hot and heavy in the East."

John Jr. wrote his brother Cargill, on April 29, 1941, of one of the Minneapolis manifestations of this dissent:

[Charles A. Lindbergh] has this section of the country by the ears, and of course we are the center of the isolationist movement. I think at least half of our friends are Lindbergh [*sic*] sympathizers and he will have a tremendous outturn at the dinner to be given for him here next week [Lindbergh had grown up in Little Falls, Minnesota, and his father had been in the U.S. House of Representatives from Minnesota's Sixth District]. . . . The Palm Beach crowd are returning, talking nothing but defeatism. The whole thing perturbs me not a little but I think the President can be counted on to control the situation.

John Jr.'s support of President Roosevelt stood in considerable contrast to his earlier hostility. When some of the Minnesota congressmen voted against the administration's proposal to arm merchant vessels, John Jr. spoke out strongly against their actions, writing Weston Grimes, "The most important thing in the world today is the defeat of Hitler . . . our personal affairs and interests must be wholly subordinated until such time as he is disposed of."

John Jr. certainly had not lost all of his vitriol against FDR, however, for he ended this letter: "Then and not until then, can we resume our fight against domination from the bottom, i.e. the New Deal." But on preparedness, John Jr. supported Roosevelt unswervingly. In a letter in late September 1940, during the height of the presidential campaign, he wrote his friend John Cowles, publisher of the *Minneapolis Star-Journal and Tribune*: "With conditions as they are I think the Republican leaders are making a great mistake in endeavoring to hamper the President in any way, and I think it would be exceedingly sound politics for Mr. Willkie to say that war may well be inevitable but that if it comes it is better to have a man of proven executive capacity at the helm rather than a bungler of the type of Roosevelt." He continued: "It may well be that I take a much more grave view of world affairs than do you or Willkie."

John Jr. seemed always to opt for action; he went on: "It seems very plain to me that if the English are defeated we are next on the list. . . . Under present world conditions it is vastly better to meet the situation by our own efforts than it is to have the situation confront us later. 'A stitch

in time saves nine.' " In this letter, John Jr. also argued for a total ban on all exports "which might conceivably have any war value to Japan." Noting that this would probably drive the Japanese to attack the Dutch East Indies, he also advocated that Roosevelt, "as Commander-in-Chief of the Navy," send the fleet immediately to Singapore. This, he felt, would force a peaceful solution rather than triggering war. John Jr.'s sense of overall strategic thinking was again in evidence.

John Sr., if anything, was even more opposed to the isolationists. When Richard P. Gale, a Minnesota Republican in the U.S. House of Representatives, took a position against renewing the Selective Service legislation, John Sr. wrote him a stinging letter of rebuke that ended: "The way the majority of the Republicans have voted and acted during this crisis makes it very doubtful if I will ever support the Republican ticket again." John Sr. exploded when he learned of the Republican National Committee decision to oppose the appointments of two longtime Republicans, Henry L. Stimson and Frank Knox, as the secretaries of War and Navy in the Roosevelt administration. John Jr. then wrote the chairman of the committee: "From the enclosed letter of my Father you can see he feels strongly on this matter—and when he feels strongly he feels *strongly*."

John Jr.'s views on war preparedness—and on the state of the country, too—can best be seen in a major document he wrote and had set professionally in print in July 1940, entitled "A National Program to Ensure the Defense of the Nation, the Improvement of the Race, the Maintenance of Liberty and a Higher Standard of Living." In this he laid out four "national objectives." One involved national defense, another spoke of liberty, and a third emphasized high standards of living; all three were reasonably noncontroversial.

The fourth *was* controversial. He called for "the improvement of the race, by insisting on a higher birth rate at the top of society than at the bottom." Here he returned to his views on the value of an intellectual elite that he espoused so vividly during and just after World War I. His wording for this argument was couched in military terms:

Every Sociologist will freely testify that in almost every country on earth, but especially in the United States, the birth rate is far higher at the bottom than at the top. Carried forward a few generations and the inevitable result is such a low quality that a complex civilization cannot function at all, for lack of enough brains to furnish the Sergeants, and Corporals, which keep the wheels moving. Every business executive knows what happens if he cannot find the officials, petty and important, which he needs. Without them his organization disintegrates. It is believed probable that the disappearance of all previous civilization has been due to this biological phenomenon . . . we have done nothing whatever to cope with the problem. It should be treated as our most important national problem, next to Defense.

His solution was to "encourage large families at the top" by using the

taxing power, especially by manipulation of inheritance taxes. Although he did not want concentration of power in the few—fortunes would be split up at death into “at least five parts”—he still wanted to “insist on a high birth rate at the top of society, where we presumably find the brightest and strongest.”

Once again, John Jr. had returned to his scrutiny of eugenics and the science of human heredity, emphasizing the statistical concepts of Francis Galton, who had strongly advocated “positive eugenics”—that one should foster more prolific breeding among the socially meritorious. Galton had used a Gaussian bell-shaped curve to segment racial characteristics among a total population. Later Karl Pearson developed what he called “the law of ancestral heredity,” in which he seemed to advance the thesis that heredity might be programmed for the betterment of the race by careful selection. The use of the so-called I.Q. test by the armed forces in World War I (and in World War II also) involved a massive intelligence testing of recruits, “not primarily for the exclusion of intellectual defectives,” said its sponsors back in the World War I days, “but rather for the classification of men in order that they may be properly placed in the military service.” John Jr. appeared to espouse many of these notions.

John Jr. circulated this surprising pamphlet among his close friends and received a number of responses. One, an eight-page letter from Loring M. Staples, a prominent Minneapolis lawyer and Yale friend of John Jr. remains in his files. Staples came down hard on the pamphlet’s thesis on racial improvement:

I cannot agree with you that the ability to accumulate wealth is the sole criterion of intelligence . . . men of the caliber of, say, Professor Einstein (who probably has accumulated very little wealth) should be preferred as parents of large families to those of the type of Moe Annenberg (who until his recent trouble with the government was considered one of the country’s wealthiest citizens) [Moses L. Annenberg, a Philadelphia publisher of racetrack “tip sheets,” was reputed to have had the highest income in the country at the time he was indicted for income-tax evasion; he was given a three-year sentence for this.] . . . Adolph Hitler . . . is also of the opinion that the race should be selectively improved, although he goes about it in a somewhat different although equally dogmatic method than you would employ. You would encourage Moe Annenberg to have a large family because he happens to be wealthy, whereas Adolf would discourage Moe from having a large family because he happens to be a Jew. I regard both methods as distasteful.

Daniel Kevles, in his book *In the Name of Eugenics*, pointed out that the eugenics enthusiasts of this period were “largely middle to upper class, white, Anglo-Saxon, predominantly Protestant and educated . . . well-to-do rather than rich.”

Staples seemed to be putting some words in John Jr.’s mouth, for nowhere did John Jr. ever support Annenberg. Yet the Staples point was

timely, given the ghastly definition of “improvement of the race” being carried out by Hitler at this particular time.

In a second letter, in October 1940, Staples also criticized John Jr.’s “two-ocean” view of national defense. John Jr. answered.

I have not in any way changed my opinion that the United States should seek only to defend what we can defend by ourselves, i.e. the Western Hemisphere north of the Equator. However in view of the certainty of the Germans, Italians and Japanese ganging up on us in the event of an English defeat next summer, I am very strongly of the opinion that sound national policy requires our polishing off the Japanese now that we might then be able to cope by ourselves with the Germans and Italians a year from now, which we could not do with the Japanese thrown into the scale on their side.

These were two good friends, used to bantering back and forth; John Jr. closed this letter “argumentatively yours.”³⁸

Twelve Years of Portent

The dozen years from the Great Crash of 1929 to Pearl Harbor had transformed Cargill from a medium-sized regional grain company to a large national corporation with many links abroad. In the process, it had spread into many more functions in the industry itself, particularly inland waterway transportation, ocean shipping, truck transport and animal feed. The Company’s financial results for this period were satisfactory, although certainly not outstanding. The net worth of the company had risen from \$5.6 million at the end of the crop year 1929–1930 to \$9.3 million on May 31, 1941. Net earnings during this span had been excellent for a few of the years, average for others, and included two loss years. The mean for the 12 years was just over \$719,000 (the return on net worth averaging 9.6 percent).

Nevertheless, in terms of impact on the industry, Cargill had moved from a little-known midwestern company to a respected and often feared major national force. Indeed, particularly because of the Corn Case, the name Cargill and that of its chief executive officer, John MacMillan, Jr., were well known much beyond the confines of the grain trade itself. Now the upcoming war would test Cargill.

PART FIVE

WAR ONCE MORE; NEW FEED AND OIL DIVISIONS



John MacMillan, Sr. (foreground, in light hat), laying keel for the first AOG, September 1942.



CHAPTER FIFTEEN

Cargill in World War II

Pearl Harbor changed the world for everyone. The near-catastrophic attack there by the Japanese, followed by their landings in the Philippines and capture of Guam, Wake Island and Hong Kong in the month of December 1941, accompanied by severe British naval losses in the South China Sea and Japan's invasion of Thailand and Malaya (December 8), were a great shock to the Allies. The now-combatant United States entered upon a frenzied period. The country was not ready for war before Pearl Harbor, less so after that disaster. Those remaining weeks in December and the uneasy days in the first four months of the new year seemed so grave. The Battle of the Coral Sea (May 7-8) and the Battle of Midway (June 3-6) provided the first substantial stiffening of Allied resistance in the Pacific. Japanese naval losses in these two great battles were severe, as were those of the Allies. In this same six-month period in the European theater, Germany chose not to move across the channel, and its advances in North Africa were finally checked in June 1942. The Russians had also counter-attacked on the Eastern Front. Huge raids, with 1,000 bombers, were carried out by the Allies on Cologne, Bremen and other German cities. Major General James H. Doolittle led carrier-based American B-25 army bombers in a raid on Tokyo. The first six months of full-scale world war after Pearl Harbor were incredibly intense.

The Grain Trade, Wartime Conditions

Demands on key sectors of the country during those six months were awesome. Support of the armed forces was paramount. They needed a united country backing them, agriculture and industry in particular. Both were caught off guard, neither ready for the instant buildup demanded by an all-out, global war.

It was not an easy transition for American agriculture. Soon a fundamental disagreement surfaced in regard to agricultural prices. Agricultural interests pushed hard to maintain the parity concept, abetted by a large Congressional voting bloc from the farm states. The administration, led conspicuously by President Roosevelt himself, succeeded in persuading Congress to pass price-control legislation, creating the powerful OPA, the Office of Price Administration. The President also used his power through executive orders to effect other controls. In the enabling legislation for the OPA, the farm bloc had succeeded in establishing parity at 110 percent. In the ensuing debates over the administration-sponsored Economic Stabilization Act, Roosevelt pushed to have this reduced to 100 percent. The agricultural interests agreed but forced a fateful trade-off by securing the Steagall Amendment, which required government support of prices with a floor of 90 percent parity for two years following the close of the war. Agricultural economist Walter Wilcox called this "the most important single action taken during the war period" in regard to agriculture. He prophetically commented: "This legislation . . . may well set the pattern for government programs in the field of agriculture for many years."¹

The battle between farm legislation and price control was played out over a number of specific wartime agricultural concerns. The period right before Pearl Harbor had been agriculturally productive, and there were surpluses of wheat and adequate quantities of other agricultural crops. Fortunately, too, the almost four years of World War II were to witness fecund agriculture in most of the food-producing nations. Countering this, however, was a massive disruption of world transportation, and significant areas of war-torn countries experienced severe food deprivation. In particular, ocean shipping was traumatized by U-boat attacks over great reaches of the world's shipping lanes.

In the United States, wheat surpluses continued through the first years of the war. The OPA put stringent controls on flour prices, and there were many battles over the margins exacted by the farmers, by the middlemen grain traders and by the flour millers. Meat and poultry increasingly were in short supply. So feed grains rather than food grains became the priority. Significant surplus wheat was put to use as feed; corn was particularly in great demand. While by 1944-1945 food grain acreage (wheat, rye, rice and buckwheat) had risen only 2.9 percent higher than in 1939-1940, in this same period, feed grain acreage had increased 6.7 percent. Even more striking was the 42.6 percent increase in acreage for oil-bearing crops (soybeans, peanuts, flaxseed).

Productivity also increased throughout the war. Labor shortages in agriculture brought more mechanization, and fertilizer use rose phenomenally. "Though the over-all record of farm production during the war is excellent," Wilcox concluded, "a critical appraisal indicates several places

where full mobilization for war production was not achieved." He particularly criticized growers of vegetables and especially cotton producers, who seemed unwilling to shift out of their less needed products. He also faulted planning in the feed grain arena, where an overly cyclical pattern persisted.

Grain traders had their own wartime problems along with everyone else. To start with, they believed that there was an inherent conflict between price control and the free market. Always desiring rigorous competition, they were willing to accept in the process the accompanying wide swings of supply and demand. The futures market epitomized this freedom to them. In World War I, the government had closed the futures markets altogether (John MacMillan, Sr., himself had acquiesced as the grain trade representative for the Minneapolis exchange). In debating the initial emergency Price Control Act in late January 1942, which established the OPA, its officials had wanted the futures markets closed again, for they saw fluctuating prices as a threat to tight control of agricultural prices. But the futures advocates had succeeded in inserting a proviso that futures markets would not be closed. After the OPA clamped down on wheat and flour pricing in October 1942, there were concerns that, as *Northwestern Miller* put it, there would be "a gradual decline of futures trading to the zero mark, as price fluctuations become narrower and narrower." One faction in the grain trade wanted to fight these constraints vigorously and faulted others for not supporting them. They thought Cargill was "apathetic toward the Futures, thinking they can operate without them," and Ed Grimes was accused of believing in "appeasement." Grimes, it was true, always searched for consensus in dealing with the government. Not so for Julius Hendel, however, for he put his activist colleagues' fears to rest when he circulated widely a statement that argued strongly against the OPA ceilings. Hendel felt that the OPA was moving too hastily, tampering with machinery already "perfected to such a degree that the wheat price registered by it is very sensitive to influences extremely minute and widespread in nature." Price controls, he felt, might bring serious repercussions.

Lobbying efforts by the industry against the price control legislation itself were unsuccessful. Cargill kept a low profile, as Ed Grimes's recommendations prevailed. Leon Henderson, the prickly head of OPA, made a speech shortly after an argument about wheat price controls in which he said, according to Weston Grimes, that "all the opposition to the Administration . . . was coming from the grain trade, which are more interested in maintaining market fluctuations for speculative purposes than anything else."²

The knottiest problem of the grain trade in that first year after Pearl Harbor was logistics—how to transport and store grain. Every arm of domestic transportation was being severely strained by war production de-

mands. The grain trade learned this quickly, for in May 1942, the Office of Defense Transportation appropriated most Great Lakes shipping for exclusive transport of iron ore, so critically needed for armaments. This threw grain shipments back to the railroads, and with their already swollen loadings, the movement of grain through domestic channels was made extremely difficult. In the fall of 1941, Ed Grimes had headed a move by shippers in the Northwest to use a permit system—a queuing process providing a priority system. Now he led a similar effort, this time to be applied all over the country in the succeeding months of 1942. *Time* magazine praised the industry's "hard-headed cooperation . . . headed by E. J. Grimes (Cargill, Inc.)." Late in the fall of 1942, a small amount of Great Lakes shipping was released for grain trade use, but the demand for ore shipping continued for most of the war.

Grain storage capacity became short as terminals rapidly filled. The government storage facilities that had been built up in the previous two years were not enough of a supplement to privately owned facilities, even with the on-farm storage of the farmers themselves, much of it rather makeshift, although generally functional. The Grimes-initiated permit system allowed a better allocation of storage, but the logistics of grain transportation remained tense throughout the war.³

In spite of the momentousness of these wartime decisions, everyday competition in the industry continued its time-honored patterns. For example, a General Mills executive took the time in June 1942 to write Cargill about what he thought was an infringement on the General Mills registered trade mark, "farm-tested." In an issue of *Feedstuffs*, Cargill had placed a feed advertisement that used this same term, "featured quite prominently," the General Mills executive alleged. Ed Grimes passed the complaint along to Fred Seed in the Company's feed group, who agreed that Cargill instead would use "production tested" for the Cargill message.⁴

Cargill's Two Outstanding Crop Years

In the face of price controls, transportation bottlenecks and other frustrations in those days after Pearl Harbor, the Company's crop years 1941–1942 and 1942–1943 were excellent. These years saw rising commodity prices and tight storage, precisely the "carrying charge" market that rewarded those organizations with good storage facilities. John Jr.'s strategic planning—the building, leasing and buying of additional terminal capacity—now proved to be quite prescient. The Company's total capacity had been just over 54 million bushels in 1939; in the first year after Pearl Harbor, it rose to 69.6 million bushels (and was up another 2 million the following year). Further, it was the clever positioning of these terminals—John Jr.'s

ideas—that made so much difference. The substantial terminal at Kansas City and the huge operation at Omaha (the repaired section was now in operation) provided a Western base. The East St. Louis terminal, completed just as the war started (after its problems with pilings had been overcome), became the accumulation point for Upper Mississippi, Missouri and Illinois river grain. It subsequently handled millions of bushels of inbound truck grain and also was the interchange point for both major north/south and east/west railroads, giving Cargill important transit privileges. Memphis continued its effectiveness for lower Mississippi shipping, both downstream and upstream. Storage in the Duluth/Superior area and Minneapolis remained available; the large Buffalo combination (the Electric, the Great Eastern and the Superior) and the huge Albany terminal offered a vast capacity in the East. In addition, a major terminal, with 3.1 million bushels of storage, had been leased at Maumee, Ohio (a suburb of Toledo). There were other additions, too, the total giving the Company enviable grain storage facilities, certainly among the best in the country.

As the Company purchased grain in each of those good crop years, stored some of it under its own name and some for others, and sold into the expanding wartime market, major profits ensued. Cargill's net profit in the crop year ending May 31, 1942, was \$2,749,000, the highest in its history; the profit for the crop year 1942–1943 was close—\$2,044,000.

The Grain Department accounted for most of this profitability. In that first war year, the gross profit for the grains was \$3.4 million; in the second, \$3.1 million. Feed was not a profitable operation yet. The country line, the commission division and the futures business had made small contributions, as had seed. Shipbuilding had had a net loss in the first of those two years and a modest \$140,000 profit in the second. Cargo Carriers had made a significant contribution in the first year, less in the second. In sum, it was grains that provided the underpinnings of the Company's tremendous success in those two years.

As expected, grain inventories had jumped sharply during that two-year period. The total holdings for grain on May 31, 1941, was just over 22 million bushels. One year later, this figure stood at almost 33 million bushels and was at the same figure the following year. The reason for the striking figures lay in the changing mix of grain over this period. On May 31, 1941, wheat represented almost 50 percent of the total inventory. For the following year, this was down to 15 percent. Corn, the feed grain, showed the largest increase. There had been just 6.5 million bushels in inventory on May 31, 1941, and one year later it was 15.1 million bushels. Rye, too, took a tremendous jump, from 6.5 million in 1941 to 12.2 million in 1942 and just under 12 million in 1943 (the reasons for this huge increase in rye will become apparent later in this chapter). War curtailed the export of all

grains, so the high Cargill sales during the first two years of the war were overwhelmingly for domestic use and storage.

Shipbuilding—in the Cornfields

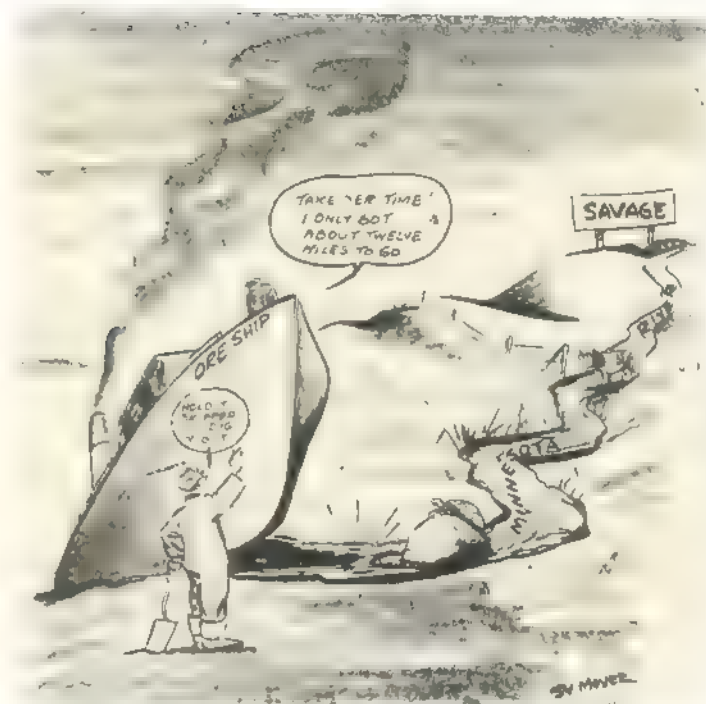
A successful professional in the grain trade, Cargill now had an “amateur” foothold in shipbuilding. Before Pearl Harbor, Cargill had committed itself to the building of another major ship the size of *Victoria* at Albany. Despite many hopes, no governmental contract had been forthcoming, but the Company had made a decision to go ahead anyway. Some steel and other materials already were on hand, and further orders had been entered (although no priority status could be claimed for such a company-owned ship).

Three days after Pearl Harbor, Weston Grimes, in Washington again, contacted the navy officers, reminding them that the Company was “beginning to construct another large tanker of about 14,000 dwt” but that the Company was willing to shift over to build the Navy’s “Sea Otters” (much smaller, faster craft, about 250 feet long with a 1,200-ton cargo capacity and a speed of about 12 knots). Ten of these could be made by Cargill as an alternative to building the large tanker. John Jr., always optimistic about the Albany shipyard, vowed that “we should come very close . . . in eight months” for either venture. Privately, he had been critical of some of the planning for the *Victoria*, alleging that the Company had paid “fantastic premiums” for quick delivery of unanticipated materials and that the new venture should be a “work boat and not a luxury liner like the last one.”⁵

On December 30, 1941, John Jr. left for Florida for his vacation, worn out and half-sick. On January 9, 1942, an unexpected call came to Cargill MacMillan, left in charge in Minneapolis in the absence of John Jr. and John Sr. (who was in California). It was from a Navy Department commander with a surprising proposal—the navy was planning to contract for 300 ATLS, tank lighters (oil barges), each of substantial size. Inasmuch as the Navy did not want to build ATLS near the ocean, would Cargill be interested in building them in the Midwest, say, at Memphis?

Just why Cargill was approached seemed unclear at that time. A year or so later, John Jr. was given a reason by one of the naval officers: “The Navy was embarrassed by the offer of an obscure shipyard in Brooklyn, to whom they did not wish to give the contract.” Apparently this undesirable firm had only a primitive outdoor facility; picking Cargill, whose Albany yard also was quite rudimentary, gave the Navy an excuse—or at least so John Jr. reasoned.

John Jr. immediately left his vacation quarters to meet his brother and Chris Jensen (the Albany shipbuilding superintendent) in Washington.



“One More River to Cross,” Saint Paul Pioneer Press, November 28, 1942.

Overnight, the three worked out on paper a system of how a shipyard might be laid out to construct all 300 of these vessels. However, when they reached the Navy Department offices, it became clear that the officers were talking of Cargill being involved in considerably less than the total number. John Jr. made an articulate case as to why Cargill should build in Minneapolis, rather than a downriver town on the Mississippi. Their contact, Commander Philip Lemler, a Bureau of Ships officer in the Navy Department quickly negated this notion, making clear that the navy did not want Cargill to build these on the Upper Mississippi “because of ice conditions.” Lemler also indicated that “his idea of the number of vessels Cargill should build will undergo a further reduction.” At the end of the meeting, the number 80 was mentioned as a possible Cargill component of the 300 vessels. Even this was an exciting prospect for a company that had built just one oceangoing vessel and which had not been able to get any other governmental contracts.

The three Cargill officers returned to Minneapolis, feeling undaunted by the negative view of Minneapolis as a site. John Jr. and Jensen, in haste,

worked out a detailed proposal for the construction of these 80 boats, pricing the contract on the basis of the number of ships to be delivered per day that the navy might desire: if one ship each day, the cost would be \$8 million; if every two days, the price dropped to \$5 million; if every eight days, \$3 million. In his cover letter to Lemler on January 21, John Jr. reported that "we are especially pleased at having found an absolutely ideal site . . . served by two railroads." As to the Northern climes, "there would be no problem whatever in keeping the river open." John Jr. added a gratuitous postscript, "It was . . . a source of great gratification to discover that there is at least one agency of the government which is on its toes."⁶

The "ideal site" was on the Minnesota River, not the Mississippi. It was near the town of Savage, a "beautiful site," John Jr. reported to his mother and father. "This would involve about 13 miles of dredging of the Minnesota River," he continued, "the cost of which would probably be somewhere between \$150,000 and \$250,000, which however is a small matter in view of the excellence of the site." Options were now taken for possible purchase. The proposed location was made up of a number of contiguous properties (one of these was where the famous trotter, "Dan Patch" trained, and the old horse barn and training track were still there).

This notion of using the Minnesota River as a viable commercial waterway related to a long-standing effort to persuade the United States Congress that it should mandate (to the Corps of Engineers) a nine-foot channel all the way to Minneapolis. Since before 1917 (when the "Twin City Lock and Dam" was completed) a vocal group had argued that this upper waterway of the Mississippi River should be deepened to a full nine feet. Opposing a deeper channel were environmentalists; railroad interests also viewed increased barge traffic as a threat to the well-being of the rail industry. Despite their efforts, a major dam at Hastings was completed in 1930. In that same year, Congress actually went on record as approving the channel—but no funds were authorized. Later in the 1930s, money became available, and the nine-foot channel project was completed in 1939.⁷

The Minnesota River, which entered the Mississippi just above St. Paul, at the suburb of Mendota, had not been part of this project. Instead of a nine-foot channel, it was more like four-feet, at least in several spots; thus John Jr.'s report that considerable dredging (including the removal of several rock ledges) would be necessary to make the Minnesota navigable.

The new navy proposal threw Cargill's Albany planning into limbo, for the navy intimated that it wished Cargill to cease production altogether on its own vessel at Albany. Cargill acquiesced on February 6, 1942. The reason for this ultimatum was made clear on February 9, when Commander Lemler made a completely fresh proposal, that Cargill build six naval vessels called AOGs, auxiliary oil and gasoline carriers just over 300 feet long, with a 48-foot beam and a capacity of 15,000 barrels. The vessels

would have a displacement of about 4,335 tons and a draft of 15 feet when fully loaded. Each had accommodations for about 10 officers and 125 enlisted men.

Ten days later, Lemler notified the Company that "the War Compensation Board has advised him that they prefer Minneapolis to Albany" and that therefore permission was given to locate Cargill's yard there. John Jr. wrote his father of the decision, noting that the navy still felt that "the draft of the boats we had under discussion is too large for us, although we know positively that this is not the case, but, like all Bureaucrats, they are so pig-headed one cannot talk with them." The navy estimated the mean draft of the AOGs at 7.34 feet; when the boat was trimmed (motor, deck trim, guns, etc.), they estimated the draft would be over 9 feet. Cargill felt that if the vessel was kept on even keel, with some of the trimming eliminated (guns, for example), the draft could be maintained at the figure of 7.34 feet.⁸

To ensure that the completed vessel did not dip at one end and thereby deepen the draft, John Jr. wired: "Chris says we can move all portable material forward to trim ship and if not sufficient we can use the stern 100 feet of *Carneida* [the Company's towboat built in 1939] as combined tug and pontoon at stern of ship. We have had extensive experience in this very thing in the *Carneida* salvage operations." The navy, however, would have no part of the Chris Jensen proposal and wanted "to float the finished ships to the ocean without 'crutches.'" John Jr. wrote his father: "I am completely disgusted with the Navy and was disposed last night to tell them that we would not work with them under any circumstances, but both Weston and Cargill were agreed that it was merely a case of necessary red tape, so we are still going along." The navy then insisted that the finishing be done (in particular, adding the main propulsion engines) at a point below St. Louis, perhaps Baton Rouge or New Orleans. John Jr. was additionally irritated by this but had no choice but to dispatch a representative to survey sites in those towns, and arrangements were made subsequently with the port commission at New Orleans.

Pricing constraints imposed by the Navy Department presented some challenging dilemmas. The government preferred fixed-cost contracts, although already it was apparent that wartime brought wholly unexpected problems that could escalate costs tremendously. Thus, the concept of a "cost-plus" contract began to be used in a great many government contracts. The Navy Department seemed to be insisting on the former basis, however, for Cargill. The sum for just one ship was to be well over \$1.5 million. John Jr., fearful of damaging the Company's credit arrangements, pushed hard for a cost-plus arrangement. The navy acquiesced, but only partially, agreeing to a cost and fixed-fee basis—in other words, a lump sum for completing each ship.

Cargill's plan to have the shipyard built under a "facility" basis, with the government paying for the construction and owning it, was rejected. Cargill once again agreed to build the shipyard itself. John Jr. had a longer-term goal there, for he had had intimations that the government might be contracting for river barges in the postwar period. Cargill MacMillan had mentioned a visit of a navy official to the Savage site: "He complimented us by stating that we were the first shipyard that he had seen that would fit into a post-war program." The Company had not yet decided at this point to use the Mississippi River waterway for its own towboats and barges, although this had interested John Jr. since before Pearl Harbor.

The dredging stirred up another pricing battle. At the start, John Jr. had felt that Cargill itself could readily take on this cost, that it would be "trifling." As the plans got more specific and a more detailed underwater study was made, it was evident that the removal of the underwater rock ledge was going to be a major task. A compromise emerged: the Corps of Engineers would pay for the first four feet of dredging and Cargill for the remaining five feet, all of the work to be done by Corps of Engineers crews.

On March 19, the formal "letter of intent" arrived, and the Company had its first wartime shipbuilding contract. Six AOGs were to be built (the navy's numbers 6 to 11; the first five were being built in another firm's Seattle shipyard). The estimated cost of each vessel was \$1,583,000, and Cargill's fixed fee was to be a flat \$94,980 per vessel. A bonus could be earned for early delivery and cost savings, in an amount not to exceed 1 percent of estimated cost (just over \$15,000). Thus, the total amount to come to Cargill was to be \$569,880, a "pain in the neck," said Cargill MacMillan. "The taxing authorities will get in the neighborhood of \$250,000 leaving us with \$350,000." Cargill MacMillan, in describing the contract to the board was even more pessimistic, warning that the contract "offered no prospective profit to the Company, and that a certain amount of loss would probably result, instead." But, he continued, "the Company desired to aid the national war effort in every possible way . . . that the management of this corporation has always been of the opinion that in war-time those who knew how to build ships should place their knowledge and facilities at the disposal of the Government when requested to do so." This was not idle talk. It seems clear from the project's voluminous correspondence that, in addition to John Jr.'s enthusiasm for ships, patriotic reasons had weighed heavily for the Cargill officials throughout.⁹

The first two vessels were to be delivered within 13 months and the last four within 19. No facilities monies were to be involved beyond usual depreciation rates "for normal wear and tear." The letter of intent also authorized Cargill to order materials but did not assure highest priority for these. Construction methods were to be left up to Cargill, subject, of course, to Navy Department oversight. In sum, Cargill had a government contract that its executives felt they could live with.



The mold loft, Port Cargill, c. 1942.

There seemed no further reason for withholding information on the project from the Twin Cities public. On March 29 an article appeared in the *Minneapolis Star-Journal and Tribune* about the "\$10,000,000 project," one that would "employ State workmen." It was a laudatory story, stressing the patriotism of Cargill, and seemed a fitting cap to the difficult negotiations. At least so it seemed at that moment.

Any euphoria about the kudos that Cargill might reap for its civic-mindedness, however, was punctured a week later when a series of critical articles came out in St. Paul newspapers, vehemently disputing the project. Critics alleged that it was a "flood-ridden and God forsaken location" and would "spoil some swell duckshooting." They asked why the government had been willing to grant the project for a location many miles up the Minnesota River, requiring a significant amount of dredging by the United States Corps of Engineers, rather than locating a similar project along the Mississippi River, which already had a nine-foot channel. Preferably, of course, the site would be located in St. Paul!

Commander Lemler, for one, was disturbed by this criticism and asked that Cargill give him more specific answers to some of the queries raised in the press articles. It seemed important to stress to Lemler (and to the

public) that the government was not going to pay for all of the dredging, just that done down to the four-foot level, a level that the Corps of Engineers already had promised to maintain. Weston Grimes, preparing the letter for the Navy Department, believed that the unfavorable publicity would dissipate once the facts were known. There was one other complication, however. This involved the railroad connections to Savage.¹⁰

A Railroad Is Purchased

When Cargill first assembled its involved project proposal on Port Cargill for the Navy Department in late February 1942, the rail service to Savage was touted as excellent. It was on the main line of the Chicago, St. Paul, Minneapolis & Omaha Railroad and also was served by the Minneapolis, Northfield & Southern Railroad, a belt line connecting with many railroads coming into Minneapolis. Within days, however, John Jr. had a severe shock on this matter, as he described to his father: "The Omaha has flatly refused to put Savage within the Twin City switching district, which would seriously hamper its use as a grain loading and coal unloading point. The Minneapolis, Northfield & Southern are equally reluctant to do so because they would lose revenue from their stations intermediate between Savage and Minneapolis."

A suggestion now surfaced that seemed to solve this problem: If Cargill would purchase the small Minnesota Western Railway Company, which ran from Minneapolis to a point six miles west of Clara City, Minnesota (a distance of 115 miles), the Minneapolis, Northfield & Southern would give the little railroad switching rights. "This would leave us in the position," John Jr. continued, "of paying only the actual transportation costs plus a nominal profit to the Minneapolis, Northfield & Southern. . . . It would also put us in a magnificent competitive position in Central Minnesota as we could then afford to buy grain aggressively at Clara City and do an elaborate business consisting of trucking grain into Clara City and coal and gasoline out."

The Minnesota Western was just about breaking even conducting a semiweekly freight and passenger service; the other five days it sent a motor coach to take care of "the trifling passenger business" (John Jr.'s words). John Jr. thought he could get the line for \$100,000; he and Cargill MacMillan would buy it themselves, inasmuch as Interstate Commerce Commission regulations would not allow Cargill to own two transportation companies (Cargill's subsidiary, CCI, was so classified). John Sr. again was uneasy, "a little fearful of tying up our assets in fixed property." Nevertheless, the deal was consummated almost immediately, for it solved the Company's problems of freight service in and out of Savage.

John Jr. was a realist on the public relations effects of this, writing his

father a few days later. "The purchase by us of the Minnesota Western is certain to cause a great deal of comment and uneasiness on the part of the grain trade and the other railroads." Indeed, the public announcement in late March regarding the railroad purchase fueled St. Paul's animosity toward Cargill's Savage plans. Weston Grimes wrote Cargill MacMillan, "Someone has . . . given the Navy the seed of an idea that we purchased the railroad in order to reap some extra profit on the shipbuilding operation." The facts were that the railroad was purchased only for Savage service and for potential grain handling, and the hostile press seemed to die away when Cargill officials explained these circumstances both to the Navy Department and the St. Paul critics.¹¹

The Ore Project Backfires

"We have had a lot of fun with our [Minnesota Western] railroad," John Jr. wrote Frank Neilson in early August 1942. "We receive delivery of our 660 H P Diesel Locomotive the last of this month. . . . Inasmuch as it will be the railroad's only locomotive we are all looking forward to it with anticipation."

If John Jr. indeed was "thinking small" at this point, not the usual posture for him, the "little railroad" all at once began to loom very large. With steel being so critical for war production, the movement of iron ore to the steel mills became a serious concern for the War Production Board and the Office of Defense Transportation.

Minnesota contained much of the country's key iron ore sources. The ore from both the Mesabi and Vermillion ranges in Northern Minnesota was shipped by rail to Duluth and by ore boat to the large steel mills of the lower Great Lakes. The third iron ore range, the Cuyuna was farther south and west in Minnesota. Here, the logical route for the ore was by rail south through the Twin Cities area and then onward to steel mills in Illinois and elsewhere. One of the largest users of ore was the Koppers United Company, with a plant in Granite City, Illinois. With the wartime crunch on the railroads, the idea occurred to many people that this ore from the Cuyuna range could travel from the Twin Cities to the St. Louis area by barge. After all, large quantities of coal came up the Mississippi by barge, all the way to the Twin Cities and to intermediate destinations.

John Jr. had felt from the start that Cargill's Savage location could be used for origination of barge movement of iron ore. The fortuitous acquisition by John Jr. and Cargill MacMillan of the Minnesota Western Railway Company became the key. As so often in this crisis period of the first year of the war, the iron ore barging project leaped ahead at a dizzying pace. John Jr. contacted the War Production Board, and within days, Jerome D. Beeler, who was the chief of Inland Waterways in the WPB's trans-

portation arm, had surveyed the entire Twin Cities area, reporting back to the WPB on October 24, 1942.

Beeler saw three final possibilities for ore transfer from rail to barge: (1) a St. Paul location (owned by its Port Authority), 11.6 miles down from the "head of navigation" of the Mississippi; (2) a location on the St. Croix River, at Stillwater, 20.8 miles from this river's confluence with the Mississippi; and (3) Savage. He wrote: "Both St. Paul and Stillwater have ideal locations, and . . . from the standpoint of convenience and efficiency, St. Paul would be more attractive to the barge lines. . . . The barge lines object to Stillwater because of the necessity of moving empty barges from St. Paul and/or Minneapolis downstream 25.3 miles to the mouth of the St. Croix, thence upstream 20.8 miles on the St. Croix to Stillwater."

Against these first two locations was the cost of needed but as yet non-existent facilities, which would require critical materials. Beeler went on: "it appears that when all factors are taken into consideration, the use of the facility at Savage offers the most feasible plan under present conditions." Cargill's facility was going to be built there, whether or not they gained the ore project, and (as Beeler put it) "the facility will be an all-purpose use facility versus single-purpose facilities proposed at St. Paul and Stillwater." Beeler recommended Savage.

The proposal brought an instant reaction from the railroads involved in the southern leg, for the barge would replace rail (whichever of the three sites was chosen). The WPB could readily justify the change to barging, however, in view of the truly critical demands already being put on the railroads.

A much more telling opponent was on the horizon, as Minneapolis looked eastward to its twin city and (usually) friendly rival, St. Paul. The Stillwater alternative seemed to fade back at this point, but St. Paul interests rose up in full wrath to attack just about every aspect of the plan. The lead was taken by the *St. Paul Pioneer Press* in a vehement editorial on "The Ore Dock Mystery" on November 25, 1942. Calling the choice of Savage "one of the prize stupidities . . . of the war effort," the editors castigated "the Cargill interests," who would come out of the war with "a channel built by government to serve the large grain terminal it is evidently planning at Savage." A clever cartoon appeared a few days later, showing an ore ship, with steam up, mired in a pasture, trying to get up a narrow, twisting creek; a farmer with a shovel in hand had yelled to the captain: "Hold it, skipper, I'll dig y' out." Another editorial on December 1 ended: "the war is building a post-war river terminal for private industry at Savage." Even the motives of the WPB officials were called into question: "Here is a situation surrounded with an atmosphere of mystery. The conduct of the war ought to be above suspicion."

Even more threatening, the St. Paul town fathers now made angry rep-

resentations to several of the Minnesota members of Congress, with particular heat applied to Representative Richard Gale and Senator Henrik Shipstead. At first, Cargill did not take the attack very seriously; when the Congressmen were contacted, Weston Grimes wired John Jr.: "I am perfectly sure the politicians won't intercede for them when they learn about Savage, which they apparently haven't learned about so far."

To make matters more complex, it was not just the Savage side of the equation that was at stake but also a project at the proposed southern terminus of the barges, in the East St. Louis/Granite City area. If necessary, existing facilities could have been used there, those of the Federal Barge Lines at East St. Louis. However, Koppers made it clear that it would prefer a new unloading facility, directly contiguous to the rail line of the Alton and Southern Railroad, which ran right into its mill.

Out of this preference came a new proposal, led by John Jr., that Cargill, the two barge lines involved (Federal and the Central Barge Company), the railroad and Koppers would join together as a syndicate to build a major unloading terminal. The group felt that the best sponsor for this facility would be the Defense Plant Corporation (DPC), and John Jr. was authorized to be the "syndicate manager" to negotiate with the DPC. It was to be of significant size, costing somewhere near \$500,000. Participation would be split among the five, 20 percent each.

But the East St. Louis proposal was tied to the Twin Cities proposal (wherever the latter might be located), and final approval of the DPC project would likely not be made—would not even be needed—unless the Twin Cities ore shipment by barge became a reality.

The Twin Cities segment definitely was not in place. Indeed, the opposition had stepped up its attacks. The St. Paul antagonists concentrated their fire on the several government agencies involved. The *St. Paul Dispatch* headlined: "U.S. Spends \$20,000 to Deepen Minnesota River to Savage," with the imputation that a private "sweetheart" deal had been perpetrated between a private company and the federal government, the private company enriching itself in the process. At this point, the Minneapolis Civic & Commerce Association came to the defense of Cargill. Colonel J. W. Moreland, the United States engineer for the St. Paul district, clarified the arrangement, noting that the government was to dredge only to the four-foot depth that had been authorized by Congress in 1892. The Minneapolis group also defended Cargill's arrangements through the Minnesota Western Railway for trackage rights for the ore project. Beeler, the WPB official, additionally was quoted in the newspapers as writing Mayor John J. McDonough of St. Paul that "premature publicity on the proposed ore docks . . . may result in the cancellation of the entire idea. . . . Such a result would be a serious blow to a constructive effort to conserve transportation."

But this did not stem the tide of criticism. Later in December, Minnesota Congressman Melvin J. Maas invited the Senate Special Committee Investigating the National Defense Program (but widely known as the Truman Investigative Committee for its head, Senator Harry S. Truman) to look into the Savage plan. The committee had a particular focus on fraud and waste. Although the committee did review both mines and mining and the iron and steel industry, Savage itself never came up for scrutiny.

On December 31, 1942, another issue was added to the argument when Frank W. Matson, the chairman of the Minnesota State Railroad and Warehouse Commission, stated that a number of bridges would become obstructions along the Minnesota River route if the Savage project became a reality. A newspaper article alleged that "six bridges, totaling 958 feet, would have to be rebuilt to make the line safe for ore traffic." Perhaps most unsettling, Weston Grimes reported to his father: "The Washington Merry Go Round [a popular nationally syndicated column] is digging into the ore deal." There was a real horror of having the well-known investigative reporter Drew Pearson looking into Cargill's business.

Cargill executives, increasingly frustrated, felt they had a right to clarification from the government agencies involved. Weston Grimes suggested: "Re-state our stand that we will abide by any decision supported by facts and reiterate our only interest is to ensure movement of ore in furtherance of war effort, but firmly demand that both ODT and WPB clarify their position and clear us of all of the STP [St. Paul] charges." Grimes wired John Jr.: "Unless we stick to this ore thing and see it thru to something like a dignified and fair decision, we are going to have a long fight on our hands ever to get any new rail river rates via SV [Savage]. . . . I think carriers could use the record in the post-war future to support an argument that SV should take a penalty over STP [St. Paul] on any new rail-water or water-rail rates. . . . I feel this decision cannot be left this way."

From the government side, there were arguments within the inter-agency power structure about who should take jurisdiction—the whole thing had become a political hot potato. Finally, the matter was referred back to the Office of Defense Transportation (ODT). It took many weeks for the ODT to make its decision. Finally, on March 31, 1943, Joseph B. Eastman, the ODT director (and later chairman of the Interstate Commerce Commission), made his recommendation: "That the establishment of a rail-water route for the movement of iron ore from Northern Minnesota to Southern Illinois is inadvisable at this time."

Eastman pointed out in his long memorandum that, "when this diversion was first proposed, it was looked on with much favor by the Office of Defense Transportation" because of the "ample supply of idle open-top

barges on the rivers." However, by March 1943, "the loading of 350,000 tons of iron ore southbound would have the effect of materially impairing the ability of the barge lines to handle coal northward. This would make it necessary for the rail lines to have more coal northbound, with further strain on their open-top equipment, manpower and motive power." Eastman concluded that "the net effect of the diversion would be additional use, rather than a saving in the use of rail equipment." In sum, the whole notion of barging ore southward from the Twin Cities was a dead issue—for Savage, for St. Paul, for Stillwater. The syndicate for the construction of the unloading facility in East St. Louis fell through immediately, of course. The great ore project was finished. John Jr. and Cargill MacMillan maintained their ownership of the Minnesota Western Railway, however.¹²

The Savage Shipyard

The Savage shipyard took shape with a rapidity so characteristic of that early wartime period. John Jr., dissatisfied with the purchasing function at the Albany shipyard, brought a new person into the picture, Arthur L. Wheeler. He was John Sr.'s brother-in-law and had been president of the Eberhardt Manufacturing Company, a steel company in Cleveland. The firm had had a serious strike and concurrent financial difficulties. Wheeler left and opened a small steel brokerage firm. John Sr. generously lent him \$25,000 for this, writing "I do not even want a note." When Cargill finally obtained the navy authorization in March 1942, John Sr. contacted Wheeler for a possible purchasing agent role at the shipyard. Wheeler accepted and was on the job within weeks.

To round out the management team, Wallace Hyde was brought in to take the sensitive liaison role with the Navy Department. Rudy Semsch became the chief accountant for the project. Cargill MacMillan recovered from a hospital stay for a severe case of kidney stones and began to take an increasingly hands-on overseer's role. John Jr. too was ill at the same time; having lost most of his vacation to the intense negotiations effort, he suffered another rise in blood pressure, and his doctor forced him to take most of the month of May off.

Those materials already on hand at Albany were either disposed of or sent to Savage. Early in April 1942, Marcus Marshall, the superintendent at Albany, was asked to release one of his key men, Kermit Wilson, to become storekeeper at Savage. Marshall wrote back: "It does not seem right to me to ask for Kermit, who I have spent two years training, and put him in a job like tool room when a man can be trained for that job in a few days. It certainly is putting me in a tough spot and everybody cannot do the job." Cargill MacMillan replied that the job was really more im-



Part of the Port Cargill shipbuilding crew, c. 1943.

portant than just a storekeeper, and Marshall grudgingly responded, "If you feel he is needed more there than Albany just let me know. . . . I have been in plenty of tough spots before."

The six AOGs were to be built simultaneously on two sets of ways constructed parallel to the river. When the two hulls on the ways nearest the water were completed, the next hulls would be jacked onto the ways closest to the water. A large administration building was built and railroad spurs into the property put in place. By the summer of 1942, the shipyard was a reality, the men and women working there already looking forward to laying the keel on Labor Day.¹³

The Victoria a "Jonah"?

Meanwhile, an unexpected new chapter in Cargill shipping occurred. It involved the *Victoria* (the former *Carlantic*), which had been sold to an Argentine company. The ship had left New York Harbor just nine days after Pearl Harbor, arriving in Curacao on Christmas Eve. C. C. Boden

wired John Jr.: "Vic averaged about nine miles." Fred K. Troughton, a Fairbanks-Morse engineer sent by that company on the first voyage, reported just a few minor problems on this leg.

The second part of the trip, from Curacao to Montevideo, Uruguay, likewise was reasonably uneventful, although Troughton did report, "There seems to be something wrong with the port electric slip coupling. . . . The 'outer member' of this coupling runs true for about 45 seconds and then it runs out of true for about 2 minutes." The destination was Buenos Aires, Argentina, and after staying there for a few days, the *Victoria* set sail for the return voyage to New York.

After about four hours on the ocean, the alignment problem again became severe. Troughton persuaded the captain to turn the ship around and to return to Buenos Aires. Troughton reported back at that time: "As I see the situation, the owners don't care a damn what happens after we get out to sea, for they have repeatedly told me that all of the equipment is under guarantee . . . 6,600 miles is a long way to go, and I know that we would not make it without serious trouble, with conditions as they are."

After many arguments with the shipping company owners and some repairs, the ship once again set sail. Off the coast of Brazil, further trouble developed, and finally the vessel had to put into the port of Pernambuco, Brazil. A diver who was sent down reported that the propeller nut was loose and the propeller shaft possibly bent. Once again, repairs were made, and the ship set sail under reduced speed.

Earlier, Troughton had reported that "there might be some difficulty with the crew, for none of them wished to go beyond Curacao" (for fear of a German U-boat attack), and he added, "I am not so sure that I do not feel the same way about it." Their forebodings were realized. On April 21, 1942, just a few days away from New York, the *Victoria* was observed by a U-boat. *Time* magazine, always quick to spot a good story, described the next sequence of events:

Just before sundown one day, a torpedo smacked into her 30 feet aft of amid-ships. Deck plates buckled, but her all-welded Albany hull stood up: the bulkheads of the tanks were unbreached. Captain Salomone broke out complete identification flags and proceeded. Fifty minutes later a second torpedo smashed into the portside. Believing her doomed, her unhurt 39-man crew pulled off, beefing at her as a Jonah (on this her maiden northbound voyage—motors dead off Punta del Este; motor repairs at Rio; propeller trouble at Recife; 41 days for a 16-day run). The captain and part of his crew were mildly embarrassed when a U.S. man-of-war picked them up after two nights and a day, informed them that cranky, stubborn *Victoria* had refused to sink and was drifting derelict, and put them back aboard her. There they found the rest of the crew, calmly awaiting their arrival. Under her own steam the \$1,000,000 Jonah limped into New York, berthed in Edgewater. "Miraculous," said the crew.

It was Argentina's "unyieldingly neutral" posture toward Germany that

especially intrigued *Time*. The Argentine Foreign Office, according to the editors, "stiffly suggested that the matter was not serious because: (1) the ship had not sunk; (2) no one was killed. . . . From Germany, usually prompt with glib explanations, came only thick, embarrassed silence."

Once the *Victoria* was in port, the full extent of the damage by the two torpedoes became clear. C. C. Boden wired Cargill MacMillan: "Victoria in dry dock. Hole about 20 by 30 in six and seven with deck bulged over a foot. Number one about same." Amazingly, however, the welded hull that Cargill had developed had not come apart at any place. Cargill MacMillan wrote Michael Cross a few weeks later: "Her being torpedoed twice and then coming in under her own power made up for our feelings over the poor return voyage."

The attack was widely reported and soon engaged both the U.S. Congress and Argentina's Chamber of Deputies. Meanwhile, Germany proclaimed its submarine zone now to include the whole United States coast. There also were many mutual recriminations about the problems with the propeller, and both Cargill and the supplier of the engines were pressed by the Argentine company to pay for all repairs. Compromises finally were reached. Late in July, the tanker was taken over by the United States government, having been reclaimed under a clause in the original purchase contract. By early the next year, she had made a trip to Murmansk, Russia, and two to Liverpool; when John Jr. next made contact, she was headquartered in Iceland; "she has been doing 9 to 10 knots in convoy service . . . you may remember that the English assured us that never by any stretch of the imagination could she function in the North Atlantic in winter because of her low speed." The tanker continued to ply the dangerous seas for the rest of World War II.¹⁴

More Shipbuilding

Keels were laid for all six of Cargill's AOGs during September 1942. The first two were made the centerpiece for a Labor Day celebration at the shipyards, and in a well-received gesture, John MacMillan, Sr., laid the keel of AOG-6, and Charles Horak, a boilermaker's helper, representing labor, laid the keel for AOG-7. Construction of all six of the ships was now well underway, ahead of schedule (despite continuing, frustrating difficulties in procurement of raw material, especially steel).

Sometime in the late fall of 1942, the name "Port Cargill" was given to the Savage operation; just when the term was first used is not clear, but it was a perfectly logical choice. In the second week of November 1942, the naval officer in charge of priorities for the Bureau of Ships visited Port Cargill. Cargill MacMillan soon learned that the Bureau "was contemplating additional work for us." The navy was interested in contracting for a

new type of small escort ship, about 220 ft. long, one that would be capable of carrying some of the armed forces' new amphibian tanks. In addition to this new ship, the officer also wanted additional AOGs. Cargill MacMillan responded that the Company could likely take on about 20 of either one of the vessels but that "the problem of building the AOG would be much simpler because we were familiar with the work." If the navy wanted them to turn to the other vessel, "we would be very glad to do the best we knew how in building them."

This first contact opened up another round of negotiations, this time less harried than the early-1942 sessions. The navy continued to check Cargill's progress on the first set of six ships. Launchings were planned for the period March 15–July 15, 1943, the dates dictated by assumptions about the ice on the river. Actual delivery dates were later that same year.

John Jr. had never given up his enthusiasm for the large oceangoing barge carrier, and in early January 1943, he also presented this notion to the navy. The idea was quickly shunted aside, however, by a wholly new proposal, this time involving the Defense Plant Corporation. The DPC had become concerned about towboat capacity in the lower Mississippi, where currents were strong and more powerful boats were needed. The DPC had contacted George Sharp, the naval architect employed earlier by Cargill, and Sharp had developed a new model. Now the DPC was anxious to move ahead and began making arrangements for 21 of these advanced towboats. Several shipbuilders were to build these; Cargill was one of the possible choices.

The Company attempted to juggle the various possibilities, hoping to come out with *some* contract if not the best. There was urgency, for Cargill wanted to hold its work force together. First, John Jr. tried to bargain the Company's lake steamer *Rees* as a down payment on a barge carrier contract. However, the Maritime Commission preferred that Cargill refurbish the *Rees* (it was getting quite decrepit) rather than turning it over to the government. It *was* subsequently rebuilt for Cargill and continued to transport iron ore on the Lakes, so badly needed at this time.

Early in February, Weston Grimes, who was handling the negotiations on the Washington side, wired John Jr.: "In my opinion it would be a serious mistake to let the BC [the barge carrier] interfere with our thinking on the towboats. . . . We should take as many towboats as we can get." This is what finally happened, in spite of the navy's concern that Cargill not take on work for any other agency. "The Navy is so fearful that it will interfere with their program," John Jr. wrote John Sr. Cargill's towboat contract was for four of the vessels, at \$750,000 each.

By late March, fabrication had begun on two of the towboats. Gone was the orderliness of the shipyard. Now the two sets of contracts seemed to compete with each other, particularly so because the Army Corps of En-